



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: MAY 30, 2004
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: MATTHEW BOHUN
SUBJECT: **PROPOSED IPSAS 21, “IMPAIRMENT OF NON-CASH-
GENERATING ASSETS”**

ACTION REQUIRED

The Committee is asked to:

- **review** the draft Standard IPSAS 21, “Impairment of Non-Cash-Generating Assets”, and
- **approve** the Standard (subject to any amendments agreed at the meeting) for publication.

AGENDA MATERIAL:

	Pages
8.2 Draft IPSAS 21, “Impairment of Non-Cash-Generating Assets” – marked up version (clean copy available on request)	8.8 – 8.60
8.3 Extract of Minutes	8.61 – 8.65
8.4 <i>Proposed Endorsement of IAS 36 Impairment of Assets</i>	8.66 – 8.73
8.5 <i>Proposed Endorsement and Summary of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations</i>	8.74 – 8.90

Previously distributed:

- 8.6 Submissions Received (Distributed with March 2004 Agenda)
- 8.7 Summary of Responses (Distributed with March 2004 Agenda)

Members are requested to bring Items 8.6 and 8.7 with them, these are in the March 2004 agenda papers.

BACKGROUND

The Committee issued Exposure Draft 23 “Impairment of Assets” in September 2003 for comment by January 31, 2004. Thirty-one responses were received on ED 23, which were considered at the March 2004 meeting of the PSC. The Committee provided directions to Staff for the drafting of a proposed IPSAS for this meeting. Attachment 8.3 contains an extract of the draft minutes of the March 2004 meeting, that extract contains the Committee’s directions to Staff.

Staff have prepared a proposed IPSAS (Attachment 8.2) for the Committee’s review. In accordance with the Staff’s proposed strategy for harmonization with IASs/IFRSs, the Staff have prepared examples of positive endorsement statements of the IASs/IFRSs related to this IPSAS. Staff do not propose that the Committee review and approve these at this meeting, but rather the content be noted – Staff expect to schedule these for more in depth

discussion at future meetings if the Committee agrees with the strategy. These endorsements are also relevant to items 12.4 – 12.6 dealing with the general improvements project as they deal with scope issues that caused obstacles at the last meeting..

ISSUES

(i) Endorsement of IASs/IFRSs

The harmonization strategy proposed by Staff (see Item 12) includes a proposal that IASs/IFRSs issued by the IASB should be positively endorsed by the PSC unless there are public sector specific issues that warrant redrafting the Standard. This strategy will enable the Committee to deal with issues where there are no public sector specific concerns quickly, without compromising the due process. Staff have attached examples of the proposed endorsement statements at Attachments 8.4 – 8.5.

Staff were directed to include within the proposed IPSAS any additional amendments made by the March 2004. The new IAS 36 includes a number of exclusions from its scope. These have been reflected in paragraph 1 of the proposed IPSAS. Paragraphs 1(f) – (j) refer to IPSASs that the PSC has not issued. The harmonization strategy proposes that by January 1, 2009 the equivalent IASs/IFRSs will have been endorsed and issued as IPSASs. This approach will remove the major obstacle the Committee faced at the March meeting when it was discussing the IPSAS improvements project. Adopting the approach proposed in the harmonization strategy will remove the obstacle that was in place at the meeting in March in respect of IAS 41 *Agriculture*. Staff propose to include endorsement of these IASs/IFRSs on the agendas of future PSC meetings. Examples of endorsement statements are included in Attachments 8.4 – 8.5. In addition to the attachments, the proposed IPSAS would require endorsement of IAS 41 *Agriculture*, the proposed endorsement statement for IAS 41 is included in Agenda Item 12.

Consequential amendments to the proposed IPSAS on impairment of non-cash-generating assets have been made, based on the assumption that the Committee will approve the Staff's harmonization strategy.

ED 23 proposed that public sector entities apply IAS 36 in respect of cash-generating assets. No respondents raised this as an issue in their comments. This in effect constitutes endorsement of IAS 36 for cash-generating assets. Staff are of the view that subject to agreement of the strategy, the Committee should issue an IPSAS endorsing IAS 36 as the proposal has already been subject to due process.

(ii) Scope – Exclusion of Property, Plant and Equipment at Revalued Amounts

ED 23 excluded from its scope property, plant and equipment at revalued amounts. Twelve of the thirty-one respondents and some members noted that this would be inconsistent with IAS 36 and that there was no apparent public sector specific reason for varying from the requirements of IAS 36. At the meeting in March 2004, the PSC did not make a final decision on whether or not to exclude property, plant and equipment carried at revalued amounts from the scope of the proposed standard. It directed Staff to prepare a draft IPSAS that excluded from its scope property, plant and equipment at revalued amounts for review at this meeting and to include justification in the basis for conclusion.

The IASB issued a revised IAS 36 *Impairment of Assets* in March 2004, which contains the same requirements in relation to property, plant and equipment that the previous version had. The IASB's has an active research project on reporting comprehensive income, which may, or may not, have an impact on its approach to impairment testing.

When the PSC developed ED 23, the IASB required impairment testing of property, plant and equipment measured at revalued amounts. At that time there was no expectation that the IASB's position would change in the medium term. The IASB Observer reported that the IASB was researching the issue of revaluations and he expected that in the long term some modifications would be made to the IASs/IFRSs, and anticipated that those modifications may eliminate the requirement to test assets carried at fair value for impairment.

The IASB states in paragraph 5 of IAS 36, and in the Basis for Conclusions of IAS 36, that where fair value is based on market value the only difference between fair value and fair value less costs to sell will be the asset's disposal costs, which may be negligible or significant. Paragraph 5(b) further states that "if the asset's fair value is determined on a basis other than market value, its revalued amount (i.e. fair value) may be greater or lower than its recoverable amount."

In the proposed IPSAS, the Committee has adopted a different definition of "value in use" to that in IAS 36. The IASB defines value in use as "the present value of the future cash flows expected to be derived from an asset or cash-generating unit". The proposed IPSAS defines value in use as "the present value of the asset's remaining service potential". Commentary in paragraph 36 – 41 notes that value in use of a non-cash-generating asset is determined using the depreciated replacement cost approach, the restoration cost approach or the service units approach. As noted in IPSAS 17 "Property, Plant and Equipment", paragraph 42, depreciated replacement cost is a method of determining fair value when there is no evidence of market value available. However, the IASB considered that depreciated replacement cost was a measure of an asset's cost, not the future economic benefits that could be derived from it.

"Recoverable service amount" is defined in this Standard as "the higher of a non-cash-generating asset's fair value less costs to sell and its value in use". Value in use is determined using depreciated replacement cost, which is a measure of fair value. If an entity that carries a non-cash-generating asset at a revalued amount were to measure that asset's recoverable amount, no impairment loss will be recognized because the asset's depreciated replacement cost, and therefore its recoverable amount, will reflect the asset's fair value.

The Committee also directed Staff to include in Appendix C "Basis for Conclusions" a more explicit statement of the Committee's reasons for varying from IAS 36 in relation to this issue. Staff have amended the Basis for Conclusions by inserting paragraphs C16A – C16D.

Staff **recommend** that the Committee review and approve paragraph 2(e) of the draft IPSAS and paragraphs C16A – C16D of the Appendix C "Basis for Conclusions".

(iii) Exclusion of investment property

ED 23 proposed excluding from its scope investment property carried at fair value. Staff are of the view that, by definition, investment property is cash-generating and should, therefore be excluded from the scope of this IPSAS. IPSAS 22X, "Impairment of Cash-Generating Assets", would include within its scope investment property measured using the cost model. Staff have drafted the exclusion and related Basis for Conclusions paragraph 15A and included it in the draft IPSAS in Attachment 8.2

Staff **recommend** that the Committee review and approve the amended scope paragraph 2(d) and paragraph 15B of the Basis for Conclusions.

(iv) Definition of "cash-generating asset"

At the meeting in March 2004, the Committee directed Staff to amend the definition of "cash-generating asset" and to provide commentary related to that definition. Staff have

amended the definition as directed to define cash generating assets as assets held to generate a commercial return. The commentary in paragraph 15A notes that assets held to generate a commercial return are deployed in a manner consistent with the manner that would be adopted by a profit-oriented entity. The commentary notes that a “commercial return” usually indicates positive cash inflows and a return commensurate with the risk of holding the asset, however these are not an essential characteristics. The commentary also notes that investment property is an example of a cash-generating asset.

Staff **recommend** that the Committee review and approve the amendments to the draft IPSAS.

(v) Changes in Market Value as an indicator of impairment

ED 23 included changes in market value as an indicator of impairment in grey letter commentary. IAS 36, paragraph 12(a) included as a “black letter” minimum indicator of impairment:

during the period, an asset’s market value has declined significantly more than would be expected as a result of the passage of time or normal use;

Nine of the thirty-one respondents and some members argued that the IPSAS should replicate IAS 36 and include unexpected market changes as a minimum indicator of impairment in black letter.

When drafting ED 23 the Committee came to the view that non-cash-generating assets, by definition, are not held to generate cash inflows, either by rental or by eventual gain on sale. The Committee was of the view that whilst unexpected market valuation changes might be an indicator of impairment, they were not an essential minimum indicator of impairment because whilst the market value of an asset may have declined, its service potential to the entity may not have changed. Staff are of the view that the arguments proposed in developing the ED still stand and that unexpected market valuation changes should be identified in commentary as a potential indicator of impairment.

Staff **recommend** that the Committee review and approve the amendments to the draft IPSAS.

(vi) Cessation of demand as an indicator of impairment

ED 23 included cessation of demand in the black letter list of minimum indicators of impairment. In the ED the Committee asked respondents whether a reduction in demand other than cessation should be included in the list of minimum indicators of impairment in black letter. Eighteen of the thirty-one respondents considered that a reduction in demand other than cessation should be an indicator of impairment. The Committee directed Staff to respond to this issue. Staff have drafted an amendment to the proposed IPSAS to include as a minimum indicator of impairment “cessation, or near cessation, of demand or need for services provided by the asset”. Paragraph 20A provides commentary that explains that demand may fluctuate over time and that specific negative fluctuations are not necessarily indicative of impairment. The commentary further explains that if demand nearly ceases, that is, it drops to a level where the entity would not have attempted to respond to it, or would not have responded by acquiring the assets being considered for impairment testing, this near cessation would indicate impairment. Staff have also included an example in Appendix A, paragraph (a) (ii).

In drafting the amendment and accompanying commentary, Staff were concerned to reflect the intention of the Committee that a decrease in demand would need to be significant. Staff

are of the view that the amended draft IPSAS reflects the Committee's original intent that demand cease, but that a small amount of residual demand would not prevent an entity recognizing an impairment loss in respect of an asset.

Staff **recommend** the Committee review and approve the amendments to the draft IPSAS.

(vii) Three approaches to measurement of value-in-use

In ED 23 the Committee asked respondents whether they thought that the three approaches to measuring value in use (depreciated replacement cost, the restoration cost approach and the service units approach) are separate methods or different methods of calculating depreciated replacement cost. Seventeen of the thirty-one respondents stated that they thought that the approaches were variations of one approach, but that they did not consider it a major issue. At the March meeting Staff noted that as explained in the ED the restoration cost approach and the service units approach modified the depreciated replacement cost of an asset before impairment, and could not therefore be considered methods of calculating depreciated replacement cost. Some members expressed the view that if the methods were to be described as separate methods, this would affect the revaluation provisions of IPSAS 17.

Staff have undertaken further research and are now of the view that in determining an asset's depreciated replacement cost, an entity or an independent valuer would take account of restoration costs, and the actual number of service units expected from the asset in its impaired state. This indicates that the restoration cost approach and the service units approach can be considered as methods of determining depreciated replacement cost. However the approaches are described, the process for determining value in use remains the same.

At the meeting in March 2004, some members expressed the view that the proposed IPSAS could give more direction on when to use the different approaches to measuring value-in-use. Other members were of the view that the draft IPSAS already gave sufficient guidance. Staff are of the view that paragraphs 42 and 43, and the illustrative examples in Appendix B give guidance on when to use each method, and that further guidance is unnecessary.

At the meeting in March 2004, members directed Staff to review the illustrative examples in Appendix B to ensure that the terminology was consistent with the requirements of the proposed IPSAS. Staff have reviewed the terminology in Appendix B and proposed amendments to examples 4 – 7.

Staff **recommend** the PSC review and approve the amendments to paragraphs 40 and 41, and Appendix B, Examples 4, 5, 6 and 7.

(viii) Obsolescence as an indicator of impairment

At the March 2004 meeting the Committee directed Staff to consider the inclusion of obsolescence as an indicator of impairment. Staff have reviewed the proposed IPSAS and are of the view that paragraph 20(b) encompasses obsolescence in the reference to the "technological environment". Staff have amended the commentary in paragraph 22 to clarify that changes in the technological environment may indicate that an asset is obsolete and requires testing for impairment.

Staff **recommend** the Committee review and approve the amendment to paragraph 22.

(ix) Recognition of impairment loss – reference to IPSAS 3

At the March 2004 meeting the members noted that in relation to the requirements and commentary on recognition and measurement of an impairment loss (paragraphs 44 – 50),

entities could usefully be referred to IPSAS 3, “Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies”. Staff have amended paragraph 49 to include such a reference.

Staff **recommend** that the Committee review and approve the amendment to paragraph 49.

(x) Additional amendments to IAS 36

At the March 2004 meeting the Committee directed Staff to prepare a draft IPSAS 21, “Impairment of Non-Cash-Generating Assets” for the July meeting that included amendments made to IAS 36 for the March 2004 edition of that Standard.

The revised IAS 36 substitutes the term “fair value less costs to sell” for “net selling price”. The technical definition is the same. Staff have included this definition in the proposed IPSAS. This definition would also affect the improved IPSAS 17.

The revised IAS 36 adopts the term “shall” in place of “should”. The draft proposed IPSAS in Attachment 8.2 uses the term “shall” in the black letter in accordance with the IPSAS improvements project recommendations.

An amendment has been drafted in relation to the IAS 36 requirement to test for impairment on an annual basis intangible assets with an indefinite useful life, intangible assets not yet available for use and goodwill. Staff have drafted requirements, related commentary in paragraphs 19A – 19C, and related material in the “Basis for Conclusions” in paragraph C13A, of the proposed IPSAS (Attachment 8.2). Staff are of the view that the proposed amendment imposes a significant burden on public sector entities and that due process requires that these proposed provisions be exposed for comment. Staff are of the view that this is best achieved by including them as consequential amendments to IPSAS 21 when the Committee develops EDs on intangible assets and business combinations as part of the IASB harmonization strategy. Staff are of the view however, that it would be more beneficial to users to make these changes to the proposed IPSAS when the Committee issues IPSASs on intangible assets and business combinations. Staff are of the view that these provisions would not assist entities unless an appropriate Standard were in place to deal with intangible assets and goodwill.

In the illustrative examples, Staff have amended the references to monetary amounts. The currency symbol “CU” has been included, where previously “currency units” was spelled out in full. The IFRSs now adopt “CU” as a standard term.

Staff **recommend** that the Committee review and reject the proposed paragraphs 19A – 19C of the proposed IPSAS and C13A of the “Basis for Conclusions”.

(xi) Illustrative example of an intangible asset in Appendix B

At the March 2004 meeting the Committee directed Staff to prepare an illustrative example of an impaired intangible asset for inclusion in Appendix B. Staff have prepared an example of impaired software, and included it in Appendix B as Example 1A. The example relates directly to the facts of Example 1, which is of an impaired mainframe computer, Example 1A refers to a software application for the computer.

Staff **recommend** the Committee review and approve the proposed Example 1A.

Finalization of the IPSAS

The Committee has devoted considerable resources to developing an IPSAS on impairment of non-cash-generating assets. Staff are of the view that the Committee is now in a position to approve and issue an IPSAS “Impairment of Non-Cash-Generating Assets”.

Staff **recommend** the Committee approve ED 23 for issue as an IPSAS, subject to a final review of editorial matters by the Chair.

Matthew Bohun
TECHNICAL MANAGER

International Public Sector Accounting
Standard

Impairment of Non- Cash-Generating Assets

PROPOSED IPSAS

FOR REVIEW AT PSC MEETING
JULY 2004



International Federation
of Accountants

This ~~Exposure Draft Standard~~ was [~~approved~~insert “approved” after approval] by the Public Sector Committee of the International Federation of Accountants.

ACKNOWLEDGMENT

This ~~Exposure Draft of an~~ International Public Sector Accounting Standard deals with the impairment of assets in the public sector. Extracts from International Accounting Standard IAS 36 (1998), “Impairment of Assets” are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of the International Accounting Standards Board (IASB). IAS 36 was published by the International Accounting Standards Committee (IASC). The IASB and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB.

This acknowledgement may be updated to include reference to IFRSs. Staff are consulting with the IASCF to determine appropriate wording.

The approved text of the IASs is that published by the IASB in the English language, and copies may be obtained directly from IASCF Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

E-mail: publications@iasb.org.uk

Internet: <http://www.iasb.org>

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The approved text of this ~~Exposure Draft Standard~~ is that published in the English language.

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PSC New York July 2004

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~~Commenting on this Exposure Draft~~

~~This Exposure Draft of the International Federation of Accountants was prepared by the Public Sector Committee. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard.~~

~~Comments should be submitted in writing so as to be received by 31 January 2004. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:~~

~~The Technical Director
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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants' Public Sector Committee (the Committee) is developing recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized.

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

~~Due Process and Timetable~~

~~An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in these Exposure Drafts from governments, public sector entities, auditors, standard setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the Committee will consider the comments received on the Exposure Draft and may modify each proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.~~

Background

The Committee issued an Invitation to Comment (ITC) Impairment of Assets in July 2000. The ITC identified the PSC's tentative views on the principles that should be applied for the recognition and measurement of impairment of assets held by public sector entities. The ITC was the first step in the due process that led to the development of this Exposure Draft.

The submissions received on the ITC reflected broad support for the general approach to impairment proposed by the Committee in that document. However, a number of respondents expressed concern about particular aspects of the impairment tests proposed. During 2001 and 2002, the Committee considered comments made by constituents in their submissions and a number of staff papers addressing constituents' concerns with the key issues set out in the ITC. A subcommittee of the PSC also considered the principles underpinning the determination of "value in use" for non-cash generating assets and reported to the PSC in late 2002.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the identification, recognition, measurement, reversal and disclosure of an impairment loss in respect of public sector assets.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by 31 January 2004. The Committee would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including materials and examples contained in appendices) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the PSC if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The Committee would particularly value comment on:

- (a) the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:

- ~~(i) — inventories;~~
- ~~(ii) — assets arising from construction contracts;~~
- ~~(iii) — financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 *Financial Instruments: Disclosure and Presentation*;~~
- ~~(iv) — investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 *Investment Property*, and non-cash-generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*; and~~
- ~~(v) — other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard;~~
- ~~(b) — the proposal to define cash-generating assets as assets held by:
 - ~~(i) — Government Business Enterprises (GBEs); and~~
 - ~~(ii) — public sector entities other than GBEs to generate a commercial rate of return (paragraph 13);~~~~
- ~~(c) — the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;~~
- ~~(d) — the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);~~
- ~~(e) — the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);~~
- ~~(f) — whether the Standard should include:
 - ~~(i) — a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and~~
 - ~~(ii) — an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53;~~~~

- ~~(g) — the proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost and service units approaches as appropriate (paragraph 36);~~
- ~~(h) — whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches;~~
- ~~(i) — the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47);~~
- ~~(j) — the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive;~~
- ~~(k) — the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52);~~
- ~~(l) — the proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62); and~~
- ~~(m) — the proposal to make disclosures as set out in paragraphs 65 and 68 — 70.~~

International Public Sector Accounting Standard

IPSAS ~~XX~~21

Impairment of Assets

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- A. Indicators of Impairment – Examples
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- C. Basis for Conclusions

COMPARISON WITH IAS 36

International Public Sector Accounting Standard

IPSAS ~~XX~~21

Impairment of Non-Cash-Generating Assets

The standards, which have been set in bold italic type, ~~should~~shall be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards.” International Public Sector Accounting Standards (IPSASs) are not intended to apply to immaterial items.

Objective

1A. The objective of this Standard is to prescribe the procedures that an entity applies to determine whether ~~an~~ a non-cash generating asset is impaired and to ensure that impairment losses are recognized. The Standard also specifies when an entity ~~should~~will reverse an impairment loss and prescribes certain disclosures for impaired assets.

Editorial change to clarify the scope. Numbering objective paras proposed by improvements project.

Scope

1. *An entity which prepares and presents financial statements under the accrual basis of accounting ~~should~~shall apply this Standard in accounting for impairment of all assets, except:*

- (a) *inventories (see IPSAS 12, “Inventories”);*
- (b) *assets arising from construction contracts (see IPSAS 11, “Construction Contracts”);*
- (c) *financial assets that are included in the scope of IPSAS ~~15XX~~, “Financial Instruments: ~~Disclosure~~ and ~~Presentation~~Recognition and Measurement”;*
- (d) *investment property (see IPSAS 16, “Investment Property”);*
- (e) ~~and non-cash-generating property, plant and equipment that are~~is measured at fair value~~revalued amounts (see IPSAS 16, “Investment Property” and (see IPSAS 17, “Property, Plant and Equipment”);~~

Staff are of the view that, by definition, investment property is cash-generating, and should be excluded from the scope of this Standard.

IMPAIRMENT OF NON-CASH-GENERATING ASSETS

- (f) biological assets related to agricultural activity and agricultural produce at the point of harvest to the extent that they are measured at fair value less estimated point-of-sale costs (see IPSAS XX “Agriculture”);
- (g) assets arising from employee benefits (see IPSAS XX “Employee Benefits”);
- (h) non-current assets (or disposal groups) classified as held for sale in accordance with IPSAS XX “Non-Current Assets Held for Sale and Discontinued Operations”;
- (i) deferred tax assets (see IPSAS XX, “Income Taxes”);
- (j) deferred acquisition costs, and intangible assets arising from an insurer’s contractual rights under insurance contracts within the scope of IPSAS XX, “Insurance Contracts”; and
- (e)(k) other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.

The revised IAS 36 excludes these assets from its scope. Staff have included these here in keeping with the proposed harmonization strategy proposed by staff, which would see these standards issued by “positive endorsement”.

2. *This Standard applies to all public sector entities other than Government Business Enterprises.*
3. *Public sector entities that hold cash-generating assets as defined in paragraph 13 ~~should~~ shall apply ~~International Accounting Standard IAS 36, IPSAS 22X Impairment of Cash-Generating Assets to such assets. Public sector entities that hold non-cash-generating assets ~~should~~ shall apply the requirements of this Standard to non-cash-generating assets.~~*
4. This Standard excludes from its scope the impairment of assets that are dealt with in another International Public Sector Accounting Standard. Government Business Enterprises (GBEs) apply IAS 36 and therefore are not subject to the provisions of this Standard. Public sector entities other than GBEs apply ~~IAS 36~~ IPSAS 22X to their cash-generating assets and apply this Standard to their non-cash-generating assets. Paragraphs 5 to 12 explain the scope of the Standard in greater detail.

Exclusions from the scope

5. This Standard does not apply to inventories, ~~and~~ assets arising from construction contracts, investment property, financial assets within the scope of IPSAS XX “Financial Instruments: Recognition and Measurement”, biological assets related to agricultural activity and

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agricultural produce at the point of harvest to the extent that they are measured at fair value less estimated point-of-sale costs, assets arising from employee benefits, non-current assets (or disposal groups) classified as held for sale in accordance with IPSAS XX, “Non-Current Assets Held for Sale and Discontinued Operations”, deferred tax assets and deferred acquisition costs, and intangible assets arising from an insurer’s contractual rights under insurance contracts within the scope of IPSAS XX, “Insurance Contracts” because existing International Public Sector Accounting Standards applicable to these assets already contain specific requirements for recognizing and measuring these assets.¹

- | |
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| Staff are of the view that Investment Property, by definition, is cash-generating, therefore should be excluded from the scope of this standard. |
|--|
6. ~~This Standard does not require the application of an impairment test to an investment property that is carried at fair value under the IPSAS 16, “Investment Property”. This is because under the fair value model in IPSAS 16, an investment property is carried at fair value at the reporting date and any impairment will be taken into account in the valuation.~~
 7. This Standard does not require the application of an impairment test to non-cash-generating assets that are carried at fair value under the allowed alternative treatment in IPSAS 17, “Property, Plant and Equipment”. This is because under the allowed alternative treatment in IPSAS 17, assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date and any impairment will be taken into account in the valuation.
 8. Consistent with the requirements of paragraph 3 above, property, plant and equipment that are classified as cash-generating assets and are carried at fair value under the allowed alternative treatment in IPSAS 17 are dealt with under ~~IAS 36~~IPSAS 22X.
 9. ~~This Standard does not apply to financial assets that are included in the scope of IPSAS 15, “Financial Instruments: Disclosure and Presentation.” Impairment of these assets will be dealt with in an International Public Sector Accounting Standard that the PSC intends to develop on the basis of IAS 39, “Financial Instruments: Recognition and Measurement” to deal with the recognition and measurement of financial instruments.~~
 10. Investments in:

¹ At the time this IPSAS was approved, not all these Standards have been issued. This Standard is effective from January 1, 2009, by which time all these Standards will have been issued.

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- (a) controlled entities, as defined in IPSAS 6, “Consolidated Financial Statements and Accounting for Controlled Entities”;
- (b) associates, as defined in IPSAS 7, “Accounting for Investments in Associates”; and
- (c) joint ventures, as defined in IPSAS 8, “Financial Reporting of Interests in Joint Ventures”;

are financial assets that are excluded from the scope of IPSAS ~~45XX~~. Where such investments are classified as cash-generating assets, they are dealt with under ~~IAS 36~~IPSAS 22X. Where these assets are in the nature of non-cash-generating assets, they are dealt with under this Standard.

Government Business Enterprises

11. The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are defined in paragraph 13 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).
12. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

Definitions

13. *The following terms are used in this Standard with the meanings specified:*

An active market is a market where all the following conditions exist:

- (a) the items traded within the market are homogeneous;**
- (b) willing buyers and sellers can normally be found at any time; and**
- (c) prices are available to the public.**

<p>This definition is included in IAS 36, and the term “active market is referred to.</p>

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Cash-generating assets are assets held by public sector entities other than Government Business Enterprises to generate a commercial return.

Amended as per
PSC decision
(March 2004).

(a) ~~public sector Government Business Enterprises (GBEs); and~~

(b) ~~public sector entities other than GBEs to generate a commercial rate of return.~~

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Revised IAS 36.

Depreciation (Amortization) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Revised IAS 36.

Government Business Enterprise means an entity that has all the following characteristics:

- (a) is an entity with the power to contract in its own name;*
- (b) has been assigned the financial and operational authority to carry on a business;*
- (c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;*
- (d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and*
- (e) is controlled by a public sector entity.*

An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

IMPAIRMENT OF NON-CASH-GENERATING ASSETS

An impairment loss (of a non-cash-generating asset) is the amount by which the carrying amount of the asset exceeds its recoverable service amount.

~~Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This is the fair value of the asset less the costs of selling.~~

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

Property, plant and equipment are tangible assets that:

- (a) are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one reporting period.

Recoverable service amount is the higher of a non-cash-generating asset's ~~net selling price~~fair value less costs to sell and its value in use.

Useful life of property, plant and equipment is either:

- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Value in use (of a non-cash-generating asset) is the present value of the asset's remaining service potential.

<p>“Value in use” is used throughout the IPSAS.</p>

Government Business Enterprises

14. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge.
15. Assets held by GBEs are cash-generating assets. Public sector entities other than GBEs may hold assets to generate a commercial ~~rate of~~ return. For the purposes of this Standard, an asset held by a non-GBE public sector entity is classified as a cash-generating asset if the asset (or unit of which the asset is a part) operates with the objective of generating a commercial ~~rate of~~ return through the provision of services to external parties.

Cash Generating Assets

15A. Cash-generating assets are those that are held to generate a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with the manner that would be adopted by a profit-oriented entity. “Commercial return” indicates that an entity intends to generate positive cash inflows from the asset and earn a return that reflects the risk involved in holding the asset. Investment property meets the definition of a cash-generating asset.

The PSC directed staff to include commentary on what constituted a commercial return.

Impairment

16. This Standard defines an “impairment” as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation. Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it. For example, 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 the leasing or disposal of the asset. The asset is regarded as impaired because 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.

Depreciation and Amortization

16A. Depreciation and amortization are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset or goodwill, the term “amortization” is generally used instead of “depreciation”. Both terms have the same meaning.

The revised IAS 36 does not include this commentary, however Staff believe that this commentary would assist users in understanding the different terms. Derived from IASB Glossary.

Identifying an Asset that may be Impaired

17. Paragraphs 18 to 26 specify when recoverable service amount ~~should~~will be determined.
18. An asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraphs 20 to 24 identify key indicators that an impairment loss may have occurred: if any of those indications is present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present,

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this Standard does not require an entity to make a formal estimate of recoverable service amount.

19. *An entity ~~should~~shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity ~~should~~shall estimate the recoverable service amount of the asset.*

19A. Irrespective of whether there is any indication of impairment, an entity shall also test:

(a) an intangible asset with an indefinite useful life,

(b) an intangible asset not yet available for use and

(c) goodwill

for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different assets may be tested for impairment at different times. However, if such an asset was initially recognized during the current annual period, that asset shall be tested for impairment before the end of the current period.

Revised IAS 36 (March 2004). Staff recommend that these changes be included as consequential amendments when the PSC issues IPSASs on business combinations and intangible assets.

- 19B. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.**

- 19C Non-cash-generating goodwill is not anticipated to arise frequently in public sector entities. The ability of goodwill to generate sufficient economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty in a non-cash-generating environment than in a cash-generating environment. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of goodwill.**

20. *In assessing whether there is any indication that an asset may be impaired, an entity ~~should~~shall consider, as a minimum, the following indications:*

IMPAIRMENT OF NON-CASH-GENERATING ASSETS**External sources of information**

- (a) ***cessation, or near cessation, of the demand or need for services provided by the asset;***
- (b) ***significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates;***

Staff were asked to reconsider this paragraph in the light of responses to the ED. See memo re this item.

Internal sources of information

- (c) ***evidence is available of physical damage of an asset;***
- (d) ***significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date;***
- (e) ***a decision to halt the construction of the asset before it is complete or in a usable condition; and***
- (f) ***evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.***

20A. The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets that are utilized in providing those services, but negative fluctuations in demand are not necessarily indicators of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired. Demand may be considered to have “nearly” ceased when it is so low that the entity would not have attempted to respond to that demand, or would not have responded by acquiring the assets being considered for impairment testing.

As per decision at March 2004 meeting.

21. The list in paragraph 20 is not exhaustive. There may be other indicators that an asset may be impaired. The existence of other indicators would also require the entity to estimate the asset’s recoverable service amount. For example, any of the following may be an indicator of impairment:

- (a) during the period, a significant decline in an asset’s market value has declined significantly

As per decision at March meeting.

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more than would be expected as a result of the passage of time or normal use; or

- (b) a significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.

22. The events or circumstances that may indicate an impairment of an asset will be significant and will often have prompted discussion by the governing board, management, or media. A change in a parameter such as demand for the service, extent or manner of use, legal environment or government policy environment would indicate impairment only if such a change was significant and had or was anticipated to have a long-term adverse effect. A change in the technological environment may indicate that an asset is obsolete, and requires testing for impairment. A change in the use of an asset during the period may also be an indicator of impairment. This may occur when, for example, a building used as a school undergoes a change in use and is used for storage. In assessing whether an impairment has occurred, the entity needs to assess changes in service potential over the long term. This underlines the fact that the changes are seen within the context of the anticipated long-term use of the asset. However, the expectations of long-term use can change and the entity's assessments at each reporting date would reflect that. Appendix A sets out examples of impairment indicators referred to in paragraph 20.
23. In assessing whether there is a halt in construction for the purposes of triggering an impairment test, the entity would consider whether construction has simply been delayed or postponed, whether there is an intention to resume construction in the near future, or whether the circumstances are such that the construction work is not to be completed in the foreseeable future. Where the construction is delayed or postponed to a specific future date, the project could still be treated as work in progress and is not considered as halted.
24. Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph 20 (f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:
- (a) significantly higher costs of operating or maintaining the asset, compared with those originally budgeted; and
- (b) significantly lower service or output levels provided by the asset compared with those originally expected due to poor operating performance.

A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up. Similarly, a significant increase in maintenance costs may indicate that higher costs need to be incurred to maintain the asset's performance at a level indicated by its most recently assessed standard of performance. In other cases, direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

25. The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 20.
26. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortization) method or the residual value for the asset need to be reviewed and adjusted under the International Public Sector Accounting Standard applicable to the asset, even if no impairment loss is recognized for the asset.

Measurement of Recoverable Service Amount

27. This Standard defines recoverable service amount as the higher of an asset's ~~net selling price~~fair value less costs to sell and its value in use. Paragraphs 28 to 42 set out the requirements for measuring recoverable service amount.
28. It is not always necessary to determine both an asset's ~~net selling price~~fair value less costs to sell and its value in use. For example, if either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
29. It may be possible to determine an asset's ~~net selling price~~fair value less costs to sell, even if the asset is not traded in an active market. Paragraphs 33 and 34 set out possible alternative bases for estimating ~~net selling price~~fair value less costs to sell when an active market for the asset does not exist. However, in some circumstances it will not be possible to determine ~~net selling price~~fair value less costs to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and

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willing parties. In this case, the recoverable service amount of the asset may be taken to be its value in use.

30. If there is no reason to believe that an asset's value in use materially exceeds its ~~net selling price~~fair value less costs to sell, the asset's recoverable service amount may be taken to be its ~~net selling price~~fair value less costs to sell. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of its net disposal proceeds. However, for many public sector non-cash-generating assets which are held on an ongoing basis to provide specialized services or public goods to the community, the value in use of the asset is likely to be greater than its ~~net selling price~~fair value less costs to sell.
31. In some cases, estimates, averages and computational shortcuts may provide a reasonable approximation of the detailed computations illustrated in this Standard for determining ~~net selling price~~fair value less costs to sell or value in use.

Net Selling PriceFair value less costs to sell

32. The best evidence of an asset's ~~net selling price~~fair value less costs to sell is 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.
33. If there is no binding sale agreement but an asset is traded in an active market, ~~net selling price~~fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate ~~net selling price~~fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the estimate is made.
34. If there is no binding sale agreement or active market for an asset, ~~net selling price~~fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, for the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. ~~Net selling price~~Fair value less costs to sell does not reflect a forced sale, unless management or the governing body is compelled to sell immediately.

35. Costs of disposal, other than those that have already been recognized as liabilities, are deducted in determining ~~net selling price~~fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in ~~IAS 19~~IPSAS XX, “Employee Benefits”²) and costs associated with reducing or reorganizing a business following the disposal of an asset are not direct incremental costs to dispose of the asset.

Value in Use

36. This Standard defines the value in use of a non-cash-generating asset as the present value of the asset’s remaining service potential. The present value of the remaining service potential of the asset is determined using the approaches identified in paragraphs 37 to 41, as appropriate:

Depreciated Replacement Cost Approach

37. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
38. The replacement cost and reproduction cost of an asset are determined on an “optimized” basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

² The proposed harmonization strategy anticipates the issuing of an IPSAS on Employee Benefits before the effective date of this IPSAS~~PSC has included the development of an IPSAS on “employee benefits” in its work program. It is expected that the project be activated after the completion of the review of IAS 19 by the IASB.~~

39. In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset.

Restoration Cost Approach

40. Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before physical impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset before physical impairment, whichever is lower. Paragraphs 37 and 38 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service Units Approach

41. Under this 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. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Application of Approaches

42. The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:
- (a) impairments identified from significant long-term changes in the technological, legal or government policy environment are generally measurable using the a-depreciated replacement cost, approach or including the service units approach, when appropriate;
 - (b) 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, are generally measurable using a depreciated replacement cost ~~or including the service units approach~~ when appropriate; and

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- (c) impairments identified from physical damage are generally measurable using a restoration cost approach.

42A. An appraisal of an asset's value in use may be undertaken, using one of the above approaches, by a member of the valuation profession, who holds a recognized and relevant professional qualification.

As per decision at the March meeting.

43. Appendix B sets out examples of various approaches that may be used to determine the value in use of a non-cash-generating asset.

Recognition and Measurement of an Impairment Loss

44. Paragraphs 45 to 50 set out the requirements for recognizing and measuring impairment losses for an asset.

45. *If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset ~~should~~shall be reduced to its recoverable service amount. That reduction is an impairment loss.*

46. As noted in paragraph 18, this Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a potential impairment loss is present. Paragraphs 20 to 24 identify key indicators that an impairment loss may have occurred.

47. *An impairment loss ~~should~~shall be recognized as an expense in the statement of financial performance immediately.*

48. *When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity ~~should~~shall recognize a liability if, and only if, required by another International Public Sector Accounting Standard.*

49. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero with a corresponding expense recognized. IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies" contains requirements for the recognition of expenses within the statement of financial performance and for disclosures about such expenses. A liability would be recognized only if another International Public Sector Accounting Standard so requires. An example is when a purpose-built military installation is no longer used and the entity is required by law to remove such installations if not usable. The

Reference to IPSAS 3 as per decision in March.

entity may need to make a provision for dismantling costs if required by the IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets."

50. *After the recognition of an impairment loss, the depreciation (amortization) charge for the asset ~~should~~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 an Impairment Loss

51. Paragraphs 52 to 63 set out the requirements for reversing an impairment loss recognized for an asset in prior years.
52. *An entity ~~should~~shall assess at each reporting date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the entity ~~should~~shall estimate the recoverable service amount of that asset.*
53. *In assessing whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased, an entity ~~should~~shall consider, as a minimum, the following indications:*

External sources of information

- (a) *resurgence of the demand or need for services provided by the asset;*
- (b) *significant long-term changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the entity operates;*

Internal sources of information

- (c) *significant long-term changes with a favorable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its most recently assessed standard of performance or a commitment to discontinue or restructure the operation to which the asset belongs;*

- (d) *a decision to resume construction of the asset that was previously halted before it was complete or in a usable condition; and*
- (e) *evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.*
54. Indications of a potential decrease in an impairment loss in paragraph 53 mainly mirror the indications of a potential impairment loss in paragraph 20. The concept of materiality applies in identifying whether an impairment loss recognized for an asset in prior years may need to be reversed and the recoverable service amount of the asset determined.
55. The list in paragraph 53 is not exhaustive. An entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, any of the following may be an indicator that the impairment loss may have reversed:
- (a) a significant rise in an asset's market value; or
- (b) a significant long-term increase in the demand or need for the services provided by the asset.
56. A commitment to discontinue or restructure an operation in the near future is an indicator of a reversal of an impairment loss of an asset belonging to the operation where such a commitment constitutes a significant long-term change, with a favorable effect on the entity, in the extent or manner of use of that asset. Circumstances where such a commitment would be an indicator often relate to cases where the expected discontinuance or restructuring of the operation would create opportunities to enhance the utilization of the asset. An example is an x-ray machine that has been underutilized by a clinic managed by a public hospital and, as a result of discontinuance or restructuring, is expected to be transferred to the main radiology department of the hospital where it will have significantly better utilization. In such a case, the commitment to discontinue or restructure the clinic's operation may be an indicator that an impairment loss recognized for the asset in prior years may have to be reversed.
57. If there is an indication that an impairment loss recognized for an asset may no longer exist or may have decreased, this may indicate that the remaining useful life, the depreciation (amortization) method or the residual value may need to be reviewed and adjusted in accordance with the International

Revised IAS 36.

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Public Sector Accounting Standard applicable to the asset, even if no impairment loss is reversed for the asset.

58. *An impairment loss recognized for an asset in prior periods ~~should~~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 ~~should~~shall, except as described in paragraph 61, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.*
59. This Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a reversal of an impairment loss is present. Paragraphs 53 to 56 identify key indicators that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased.
60. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or sale, since the date when an entity last recognized an impairment loss for that asset. An entity identifies the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:
- (a) a change in the basis for recoverable service amount (i.e., whether recoverable service amount is based on ~~net selling price~~fair value less costs to sell or value in use);
 - (b) if recoverable service amount was based on value in use, a change in estimate of the components of value in use; or
 - (c) if recoverable service amount was based on ~~net selling price~~fair value less costs to sell, a change in estimate of the components of ~~net selling price~~fair value less costs to sell.
61. *The increased carrying amount of an asset due to a reversal of an impairment loss ~~should~~shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.*
62. *A reversal of an impairment loss for an asset ~~should~~shall be recognized as revenue in the statement of financial performance immediately.*
63. *After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset ~~should~~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.*

Redesignation of Assets

64. The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets, only occurs when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss comes from, as a minimum, the listed indicators applicable to the asset after redesignation.

Disclosure

65. *For each class of assets, the financial statements ~~should~~shall disclose:*
- (a) *the amount of impairment losses recognized in the statement of financial performance during the period and the line item(s) of the statement of financial performance in which those impairment losses are included; and*
 - (b) *the amount of reversals of impairment losses recognized in the statement of financial performance during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.*
66. A class of assets is a grouping of assets of similar nature and use in an entity's operations.
67. The information required in paragraph 65 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant and equipment, at the beginning and end of the period, as required under IPSAS 17 *Property, Plant and Equipment*.
68. *An entity that applies IPSAS 18, Segment Reporting, ~~should~~shall disclose the following for each segment reported by the entity:*
- (a) *the amount of impairment losses recognized in the statement of financial performance; and*
 - (b) *the amount of reversals of impairment losses recognized in the statement of financial performance.*
69. *If an impairment loss for an asset is recognized or reversed during the period and is material to the financial statements of the reporting entity as a whole, an entity ~~should~~shall disclose:*
- (a) *the events and circumstances that led to the recognition or reversal of the impairment loss;*

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- (b) *the amount of the impairment loss or reversal of impairment loss recognized;*
 - (c) *the nature of the asset;*
 - (d) *the segment to which the asset belongs, if the entity applies IPSAS 18;*
 - (e) *whether the recoverable service amount of the asset is its ~~net selling price~~fair value less costs to sell or its value in use;*
 - (f) *if the recoverable service amount is ~~net selling price~~fair value less costs to sell, the basis used to determine ~~net selling price~~fair value less costs to sell (such as whether selling price was determined by reference to an active market or in some other way); and*
 - (g) *if the recoverable service amount is value in use, the approach used to determine value in use.*
70. *If impairment losses recognized (reversed) during the period are material in aggregate to the financial statements of the reporting entity as a whole, an entity ~~should~~shall disclose a brief description of the following:*
- (a) *the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under paragraph 69; and*
 - (b) *the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under paragraph 69.*
71. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.

Transitional Provisions

72. *This Standard ~~should~~shall be applied on a prospective basis only. Impairment losses (reversals of impairment losses) that result from adoption of this International Public Sector Accounting Standard ~~should~~shall be recognized in accordance with this Standard (i.e., in the statement of financial performance).*
73. Before the adoption of this Standard, entities may have adopted accounting policies for the recognition and reversal of impairment losses. On adoption of this Standard, a change in accounting policy may arise. It would be difficult to determine the amount of adjustments resulting from a retrospective application of the change in accounting policy. Therefore, on

adoption of this Standard, an entity does not apply the benchmark or the allowed alternative treatment for other changes in accounting policies in IPSAS 3, “Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.”

Effective Date

74. *This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after ~~XX Month Year~~ January 1, 2009. Earlier application is encouraged.*
75. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption.

Appendix A

Indicators of Impairment — Examples

This appendix sets out examples of impairment indicators discussed in the Standard to assist in clarifying their meaning. It does not form part of the standards.

External sources of information**(a) Cessation, or near cessation, of the demand or need for services provided by the asset.**

The asset still maintains the same service potential, but demand for that service has ceased. Examples of assets impaired in this manner include:

(i) A school closed because of a lack of demand for school services arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future;

(ii) A school designed for 1,500 students currently has an enrolment of 150 pupils – the school cannot be closed because the nearest alternative school is 100 kilometers away. The entity does not envisage the enrolment increasing. At the time of establishment enrolment was 1,400 students – the entity would have acquired a much smaller facility had enrolment been envisaged to be 150 students. The entity determines that demand has nearly ceased and the recoverable amount of the school should be compared with its carrying amount;

Consequential re 'near cessation'. See memo item (vi)

(iii) A railway line closed due to lack of patronage (for example, the population in a rural area has substantially moved to the city due to successive years of drought and those that have stayed behind use the cheaper bus service); and

(iiii) A convention center or stadium whose principal lessee does not renew its lease with the result that the facility is expected to close.

(b) Significant long-term changes in the technological environment with an adverse effect on the entity.

The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. Examples of assets impaired in this manner are:

- (i) Medical diagnostic equipment that is rarely or never used because a newer machine embodying more advanced technology provides more accurate results (would also meet indicator (a) above);
- (ii) Software that is no longer being supported by the external supplier because of technological advances and the entity does not have the personnel to maintain the software; and
- (iii) Computer hardware that has become obsolete as the result of technological development.

(c) **Significant long-term changes in the legal or government policy environment.**

An asset's service potential may be reduced as a result of a change in a law or regulation. Examples of impairments identified by this indicator include:

- (i) An automobile that does not meet new emission standards or a plane that does not meet new noise standards;
- (ii) A school that can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exit procedure; and
- (iii) A drinking water plant that cannot be used because it does not meet new environmental standards.

Internal sources of information

(d) **Evidence is available of physical damage of an asset.**

Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide. Examples of assets impaired in this way include:

- (i) A building damaged by fire or flood or other factors;
- (ii) A building that is closed due to identification of structural deficiencies;
- (iii) Sections of an elevated roadway that have sagged, indicating that that segment of roadway will need to be replaced in 15 years rather than the original design life of 30 years;
- (iv) A dam whose spillway has been reduced as a result of a structural assessment;
- (v) A water treatment plant whose capacity has been reduced by intake blockage and the removal of the blockage is not economical;

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- (vi) A bridge that is weight-restricted due to identification of structural deficiencies;
- (vii) A navy destroyer damaged in a collision; and
- (viii) Equipment that is damaged and can no longer be repaired or for which repairs are not economically feasible.

(e) **Significant long-term changes in the extent to which an asset is used, or is expected to be used, with an adverse effect on the entity.**

If an asset is not being used to the same degree as it was when originally put into service or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. An example of an asset that might be identified as potentially being impaired by this indicator is a mainframe computer that is underutilized because many applications have been converted or developed to operate on servers or PC platforms. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used.

(f) **Significant long-term changes in the manner in which an asset is used, or is expected to be used, with an adverse effect on the entity.**

If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indicator is a school building that is being used for storage rather than for educational purposes.

(g) **A decision to halt the construction of the asset before it is complete or is in a usable condition.**

An asset that will not be completed cannot provide the service intended. Examples of assets impaired in this manner include those where:

- (i) Construction was stopped due to identification of an archaeological discovery or environmental condition such as nesting ground for a threatened or endangered species; and
- (ii) Construction was stopped due to a decline in the economy.

The circumstances that led to the halting of construction ~~should~~will also be considered. If construction is deferred, that is, postponed to a specific future date, the project could still be treated as work in progress and is not considered as halted.

- (h) **Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.**

Internal reports may indicate that an asset is not performing as expected or its performance is deteriorating over time. For example, an internal health department report on operations of a rural clinic may indicate that an x-ray machine used by the clinic is impaired because the cost of maintaining the machine has significantly exceeded that originally budgeted.

Appendix B

Measurement of Impairment Loss — Examples

This appendix illustrates the application of the provisions of the Standard to assist in clarifying their meaning. It does not form part of the Standard. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Standard or to indicate the Committee's endorsement of the situations or methods illustrated. Application of the provisions of this Standard may require assessment of facts and circumstances other than those illustrated here.

Note: In the following examples, unless a net selling price fair value less costs to sell is indicated, it is assumed that the net selling price fair value less costs to sell of the asset tested for impairment is less than its value in use or is not determinable. Therefore, the asset's recoverable service amount is equal to its value in use.

Example 1: Depreciated Replacement Cost Approach**Significant Long-term Change with Adverse Effect on the Entity in the Technological Environment — Underutilized mainframe computer**

In 1999, the City of Kermann purchased a new mainframe computer at a cost of 10 million currency units. Kermann estimated that the useful life of the computer would be seven years and that on average 80 percent of central processing unit (CPU) capacity would be used by the various departments. A buffer of excess CPU time of 20 percent was expected and needed to accommodate scheduling jobs to meet peak period deadlines. Within a few months after acquisition, CPU usage reached 80 percent, but declined to 20 percent in 2003 because many applications of the departments were converted to run on desktop computers or servers. A computer is available on the market at a price of CU500,000³ ~~currency units~~ that can provide the remaining service potential of the mainframe computer using the remaining applications.

Evaluation of Impairment

The indicator of impairment is the significant long-term change in technological environment resulting in conversion of applications from the mainframe to other platforms and therefore decreased usage of the mainframe computer. (Alternatively it can be argued that a significant decline in the extent of use of the mainframe indicates impairment.) Impairment loss is determined using the depreciated replacement cost approach as follows:

a	Acquisition cost, 1999	10,000,000
	Accumulated depreciation, 2003 (a × 4 ÷ 7)	5,714,286
b	Carrying amount, 2003	4,285,714
c	Replacement cost	500,000
	Accumulated depreciation(c × 4 ÷ 7)	285,714
d	Depreciated replacement cost <u>Recoverable Service Amount</u>	214,286
	Impairment loss (b – d)	4,071,428

³ In this standard monetary amounts are denominated in “currency units” (CU).

IFRSs now use the currency symbol “CU” for currency units.

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Example 1A: Depreciated Replacement Cost Approach

PSC directed staff to include an additional example of an intangible asset.

Near cessation in demand for the services provided by a non-cash-generating asset – Underutilized Mainframe Software Application

In 1999, the City of Kermann purchased a software license for an application for its new mainframe computer for CU350,000. Kermann estimated that the useful life of the software would be seven years and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software. By 2003, usage of the application had declined to 15 percent of its originally anticipated demand. A license for a software application to replace the remaining service potential of the impaired software application costs CU70,000.

Evaluation of Impairment

The indicator of impairment is technological change, brought about by the loss of mainframe computer capacity.

a	Acquisition cost, 1999	350,000
	Accumulated amortization (a x 4/7)	200,000
b	Carrying amount, 2003	150,000
c	Replacement cost	70,000
	Accumulated amortization (c x 4/7)	40,000
d	Recoverable Service Amount	30,000
	Impairment loss (b – d)	120,000

Example 2: Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Manner of Use — School used as warehouse

In 1997, Lunden School District constructed an elementary school at a cost of CU10 million-currency units. The estimated useful life of the school is fifty years. In 2003, the school is closed because enrolments in the district declined unexpectedly due to a population shift caused by the bankruptcy of a major employer in the area. The school is converted to use as a storage warehouse, and Lunden School District has no evidence that enrolments will increase in the future such that the building would be reopened for use as a school. The current replacement cost for a warehouse ~~of the same size~~with the same storage capacity as the school is CU4.2 million-currency units.

Evaluation of Impairment

Impairment is indicated because the purpose for which the building is used has changed significantly from a place for instructing students to a storage facility and this is not anticipated to change for the foreseeable future. An impairment loss using depreciated replacement cost approach would be determined as follows:

a	Historical cost, 1997	10,000,000
	Accumulated depreciation, 2003 (a × 6 ÷ 50)	1,200,000
		8,800,000
b	Carrying amount, 2003	8,800,000
c	Replacement cost	4,200,000
	Accumulated depreciation (c × 6 ÷ 50)	504,000
		3,696,000
d	Depreciated replacement cost <u>Recoverable Service Amount</u>	3,696,000
	Impairment loss (b - d)	5,104,000

Example 3: Depreciated Replacement Cost Approach**Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use — School partially closed due to decline in enrolment**

In 1983, the Lutton School District constructed a school at the cost of CU2.5 million ~~currency units~~. The entity estimated the school would be used for 40 years. In 2003, the enrolment declined from 1000 to 200 students as the result of population shift caused by the bankruptcy of a major employer in the area. The management decided to close the top two floors of the three story school building. The current replacement cost of the one storey school is estimated at CU1.3 million ~~currency units~~.

Evaluation of Impairment

Impairment is indicated because the extent of use of the school has changed from three floors to one floor as the result of reduction in the number of students from 1000 to 200 students. The reduction in the extent of use is significant and the enrolment is expected to remain at the reduced level for the foreseeable future. Impairment loss using depreciated replacement cost approach would be determined as follows:

a	Acquisition cost, 1983	2,500,000
	Accumulated depreciation, 2003 (a × 20 ÷ 40)	1,250,000
b	Carrying amount, 2003	1,250,000
c	Replacement cost	1,300,000
	Accumulated depreciation (c × 20 ÷ 40)	650,000
d	Depreciated replacement cost <u>Recoverable Service Amount</u>	650,000
	Impairment loss (b - d)	600,000

Example 4: Restoration Cost Approach

Physical Damage — School bus damaged in road accident

In 1998, North District Primary School acquired a bus at the cost of CU200,000 ~~currency units~~ to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 2003, the bus sustained damage in a road accident requiring CU40,000 ~~currency units~~ to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is 250,000 currency units in 2003.

Evaluation of Impairment

Impairment is indicated because the bus has sustained physical damage in the road accident. Impairment loss using the restoration cost approach would be determined as follows:

a Acquisition cost, 1998	200,000
Accumulated depreciation, 2003 (a × 5 ÷ 10)	100,000
b Carrying amount, 2003	100,000
c Replacement cost	250,000
Accumulated depreciation (c × 5 ÷ 10)	125,000
d Depreciated replacement cost (undamaged state)	125,000
Less: restoration cost	40,000
e Depreciated replacement cost (damaged state) <u>Recoverable Service Amount</u>	85,000
Impairment loss (b - e)	15,000

Example 5: Restoration Cost Approach

Physical Damage — Building damaged by fire

In 1984, the City of Moorland built an office building at a cost of CU50 million ~~currency units~~. The building was expected to provide service for 40 years. In 2003, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed and structural repairs costing CU35.5 million ~~currency units~~ are to be made to restore the office building to an occupiable condition. Assume that all the restoration costs are capitalizable. The replacement cost of a new office building is CU100 million ~~currency units~~.

Evaluation of Impairment

Impairment is indicated because the office building has sustained physical damage due to fire at the premises. Impairment loss using restoration cost approach would be determined as follows:

a Acquisition cost, 1984	50,000,000
Accumulated depreciation, 2003 (a × 19 ÷ 40)	23,750,000
b Carrying amount, 2003	<u>26,250,000</u>
c Replacement cost (of a new building)	100,000,000
d Accumulated depreciation (c × 19 ÷ 40)	47,500,000
Depreciated replacement cost (undamaged)	52,500,000
Less: restoration cost	35,500,000
e Depreciated replacement cost (in damaged state) <u>Recoverable Service Amount</u>	<u>17,000,000</u>
Impairment loss (b– e)	<u>9,250,000</u>

Example 6: Service Units Approach**Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use — High rise building partially unoccupied for the foreseeable future**

In 1988, Ornog City Council constructed a 20 story office building for use by the Council in downtown Ornog at the cost of CU80 million ~~currency units~~. The building is expected to have a useful life of 40 years. In 2003, Federal Safety Regulations required that the top 4 storys of high rise buildings should be left unoccupied for the foreseeable future. The building has a ~~net selling price~~ fair value less costs to sell of CU45 million ~~currency units~~ in 2003 after regulations came into force. The current replacement cost of a similar 20 story building is CU85 million ~~currency units~~.

Evaluation of Impairment

Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new Federal Safety Regulations. The reduction in the extent of use is significant and the occupation of the building is expected to remain at the reduced level (16 floors) for the foreseeable future. Impairment loss using the service units approach would be determined as follows:

a	Acquisition cost, 1988	80,000,000
	Accumulated depreciation, 2003 ($a \times 15 \div 40$)	30,000,000
b	Carrying amount, 2003	<u>50,000,000</u>
c	Replacement cost (20 story building)	85,000,000
	Accumulated depreciation ($c \times 15 \div 40$)	31,875,000
d	Depreciated replacement cost	<u>53,125,000</u>
e	Value in Use = Depreciated replacement cost – <u>Service Units Approach</u> – of a 16 storey building ($d \times 16 \div 20$)	<u>42,500,000</u>
f	Net selling price <u>Fair value less costs to sell</u> of the building after regulation came into force	<u>45,000,000</u>
g	Recoverable service amount (higher of e and f)	<u>45,000,000</u>
	Impairment loss (b - g)	<u>5,000,000</u>

Example 7: Service Units Approach

Evidence from Internal Reporting — Higher cost of operating the printing machine

In 1998, Country X Education Department purchased a new printing machine at a cost of CU40 million ~~currency units~~. The Department estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 2003, it was reported that an automated feature of the machine's function does not operate as expected resulting in a 25 percent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is CU45 million ~~currency units~~ in 2003.

Evaluation of Impairment

Impairment is indicated by evidence from internal reporting that the service performance of the printing machine is worse than it was expected. Circumstances suggest that the decline in the service potential of the asset is significant and of long-term nature. Impairment loss using service units approach is determined as follows:

a Acquisition cost, 1998	40,000,000
Accumulated depreciation (a × 5 ÷ 10)	<u>20,000,000</u>
b Carrying amount, 2003	<u><u>20,000,000</u></u>
c Replacement cost	45,000,000
Accumulated depreciation (c × 5 ÷ 10)	<u>22,500,000</u>
d Depreciated replacement cost	<u><u>22,500,000</u></u>
e Depreciated replacement cost	
of the remaining service potential (d × 75%) Recoverable Service Amount	<u><u>16,875,000</u></u>
Impairment loss (b - e)	<u><u>3,125,000</u></u>

Appendix C

Basis for Conclusions

This appendix gives reasons for supporting or rejecting certain solutions related to the accounting for impairment of assets.

Measurement of Recoverable Service Amount

- C1. The core accrual International Public Accounting Standards are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB) to the extent that the requirements of those Standards are applicable to the public sector. ~~The proposals in this Exposure Draft (ED)~~ requirements of this Standard are have been developed consistent with that policy. International Accounting Standard IAS 36, "Impairment of Assets" requires entities to determine the recoverable amount of an asset if there are indications that the asset is impaired. The recoverable amount of an asset is defined as the higher of value in use and ~~net selling price~~ fair value less costs to sell of the asset. This Standard includes similar requirements.
- C2. ~~As a prelude to this ED, the~~ An Invitation to Comment, (ITC) "Impairment of Assets" issued in 2000 proposed an approach to accounting for impairment of the assets of public sector entities that applied IAS 36 to the extent that it was appropriate. ~~This ED 23 "Impairment of Assets" has been developed after consideration of responses to the ITC.~~ This Standard was developed after consideration of the responses to ED 23.

Cash-Generating Assets

- C3. IAS 36 requires an entity to determine value in use as the present value of estimated future cash flows expected to ~~arise~~ be derived from the continuing use of the asset, or cash-generating unit, and from its disposal at the end of its useful life. The service potential of cash-generating assets is reflected by their ability to generate future cash flows. ~~This~~ The requirements of IAS 36 ~~are~~ is applicable to cash-generating assets held by public sector entities, ~~and the ED proposes the application of IAS 36 to account for impairment of cash-generating assets in the public sector~~ This Standard requires entities to apply IAS 36 to account for impairment of cash-generating assets in the public sector.

Non-Cash-Generating Assets

- C4. In considering the principles underpinning a value in use concept applicable to non-cash-generating assets, the Committee agreed that the

value in use of a non-cash-generating asset should be measured by reference to the present value of the remaining service potential of the asset. This replicates the approach taken by IAS 36.

Determination of Value in Use

- C5. The determination of the value in use of a non-cash generating asset, that is, the present value of the remaining service potential may be approached in a number of ways. One approach that replicates IAS 36 involves estimating and discounting cash inflows that would have arisen had the entity sold its services or other outputs in the market. However, the Committee is of the view that it is unlikely that this approach could be used in practice due to the complexities involved in determining the appropriate prices at which to value the service or other output units and estimating the appropriate discount rate.
- C6. Other approaches reflect an implicit determination of value in use. In this respect, the Committee considered the market value approach, and approaches that measure depreciated replacement cost, and include consideration of restoration cost and service units ~~approaches~~.

Market value approach

- C7. Under this approach, where an active market exists for the asset, the value in use of the non-cash-generating asset is measured at the observable market value of the asset. Where an active market for the asset is not available, the entity uses the best available market evidence of the price at which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, having regard to the highest and best use of the asset for which market participants would be prepared to pay in the prevailing circumstances. The Committee noted that the use of the observable market value as a proxy for value in use was redundant since market value differed from the fair value less costs to sell (the other arm of the recoverable service amount estimate) of the asset only by the amount of the costs of disposal. Therefore the market value would be effectively captured by the fair value less costs to sell arm of impairment measurement.

Depreciated replacement cost approach

- C8. Under this approach, the value in use of the asset is determined as the lowest cost at which the gross service potential embodied in the asset could be obtained in the normal course of operations less the value of the service potential already consumed. This approach assumes that the entity replaces the remaining service potential of the asset if it is deprived of it. An asset

may be replaced either through reproduction (such as specialized assets) or through replacement of its gross service potential. Therefore, value in use is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired service potential of the asset.

Restoration cost approach

- C9. This approach is usually used when impairments arise from physical damage. Under this approach, the value in use of the asset is determined by subtracting the estimated restoration cost of the asset from ~~the market value or the depreciated replacement or reproduction cost~~ of the asset before physical impairment. ~~This approach is usually used when impairments arise from physical damage.~~

Service units approach

- C10. This approach determines the value in use of the asset by reducing ~~the market value or the~~ depreciated replacement or reproduction cost of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state.

Approaches adopted

- C11. ~~The Committee noted that the use of the observable market value as a proxy for value in use was redundant since market value differed from the net selling price (the other arm of the recoverable service amount estimate) only by the amount of selling costs involved, and therefore the market value would be effectively captured by the net selling price arm of impairment measurement. Accordingly, the~~The Committee agreed that the value in use of a non-cash-generating asset ~~should~~will be measured using the depreciated replacement cost, determined using the restoration cost and the service units approaches cited above as appropriate.

Goodwill and Other Intangibles

- C12. IAS 36 includes provisions for the recognition and measurement of impairment losses related to goodwill and intangible assets, this Standard also includes those assets within its scope, however there are no specific provisions relating to them. Currently there are no International Public Sector Accounting Standards dealing with goodwill and other intangible assets. ~~IAS 22~~IFRS 3, "Business Combinations" deals with the goodwill that arises in a business combination and IAS 38, "Intangible Assets" deals with intangible assets. The Committee has developed a strategy to address these and other IASs/IFRSs, which involves positive endorsement of

IASs/IFRSs as IPSASs where there are no public sector specific issues that warrant redrafting of the IAS/IFRS before being issued as an IPSAS. The Committee intends to have a complete suite of IPSASs available for implementation for reporting periods ending on or after January 1, 2009. The Committee intends amending this Standard to include specific provisions relating to goodwill and intangible assets when it develops IPSASs on those topics. [NOTE: THE STRATEGY IS SUBJECT TO APPROVAL BY THE PSC.]

- C13. This Standard has not excluded goodwill and other intangible assets from its scope. However, the Committee observed that goodwill as conventionally defined is not expected to arise in a non-cash-generating context. Moreover, public sector intangible assets such as those reflecting the entity's ability to issue licences often arise in a cash-generating context, and non-cash-generating intangible assets are envisaged to be of rare occurrence. IAS 36 deals with impairment of goodwill and other intangible assets as cash-generating assets.

Group of Assets and Corporate Assets

- C14. Under IAS 36, where it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount for the asset's cash-generating unit (CGU) ~~should~~will be determined. The CGU is the smallest identifiable group of assets that generates cash inflows from continuing use, and that is largely independent of the cash inflows from other assets or groups of assets. The Committee considered the concept of a service-generating unit in a non-cash-generating context and noted that as the proposed requirements in the ED are applied to individual assets, the adoption of such a concept by analogy to the CGU concept in IAS 36 is unnecessary because it is possible to identify the service potential of individual assets. Moreover, its adoption would introduce undue complexities in accounting for impairment of non-cash-generating assets.
- C15. Under IAS 36, assets other than goodwill that contribute to the future cash flows of two or more CGUs are regarded as "corporate assets." In a cash-generating context, because corporate assets do not generate separate cash inflows, the impairment of corporate assets are dealt with as part of the impairment of the cash-generating unit to which the corporate assets belongs. The Committee observed that in a non-cash-generating context, the identification of such assets necessitates the adoption of the concept of service-generating unit which is not warranted as noted in paragraph C14 above. The Committee further noted that such assets are often an integral part of the service delivery function and their impairment are to be dealt with as for any other non-cash-generating assets of the entity.

Investment Property

C15A. IPSAS 16 “Investment Property” defines an investment property as property held to earn rentals or for capital appreciation or both. The Committee is of the view that investment property is, by definition, cash-generating and therefore is outside the scope of this Standard. IPSAS 22X, “Impairment of Cash-Generating Assets” applies to investment property measured using the cost model.

Staff are of the view that investment property will always be cash-generating and would never be tested for impairment under this standard. The scope should make this clear.

Property, Plant and Equipment

C16. The Standard does not require the application of an impairment test to non-cash-generating assets that are carried at ~~fair value~~ revalued amounts under the allowed alternative treatment in IPSAS 17, “Property, Plant and Equipment.” The Committee is of the view that under the allowed alternative treatment in IPSAS 17, assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date and any impairment will be taken into account in the valuation. ~~The IASB Observer on the PSC has a similar view noting that this principle is applicable to all assets measured at fair value. This is different to the approach in IAS 36, which requires entities to apply IAS 36 after a revaluation to determine if the revalued asset is impaired.~~

C16A. This Standard deals with public sector assets that are non-cash-generating assets. The difference between this Standard and IAS 36 is due to two factors:

- (a) the differing methods of determining recoverable service amount under this Standard and of determining recoverable amount under IAS 36; and
- (b) the requirement under IAS 36 to combine non-cash-generating assets with cash generating assets to form a cash generating unit.

C16B. “Recoverable service amount” is defined in this Standard as “the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.” Under this Standard, an entity determines an asset’s value in use by determining the current cost to replace the asset’s remaining service potential. The current cost to replace the asset’s remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach, and the service units

IMPAIRMENT OF NON-CASH-GENERATING ASSETS

approach. These approaches are also adopted to measure fair value under IPSAS 17; therefore the value in use is a measure of fair value.

C16C. “Recoverable amount” is defined in IAS 36 as “the higher of an assets fair value less costs to sell and its value in use”. Value in use under that Standard is determined using the present value of the cash flows expected to be derived from continue use of the asset and its eventual disposal. IAS 36 states that the value in use may be different to the fair value of the asset.

C16D. Under IAS 36, where an asset does not produce cash inflows it is combined with other assets to form a cash-generating unit, the value in use of which is then measured. The sum of the fair values of the assets that make up a cash-generating unit may be different to the value in use of the cash-generating unit.

C16D. The approach adopted in this Standard is the same as that adopted in IPSAS 16, “Investment Property” in respect of investment property measured using the fair value method. Neither this Standard nor IAS 36 requires investment property measured at fair value to be tested for impairment.

C17. This Standard requires the impairment of cash-generating assets to be dealt with under ~~IAS 36~~IPSAS 22X. ~~IAS 36~~IPSAS 22X applies to property, plant and equipment carried at fair value. Therefore, this Standard does not exempt cash-generating property, plant and equipment carried at fair value from an impairment test.

Impairment of Non-Cash-Generating Assets Held by Government Business Enterprises

C18. This Standard requires that the impairment of all assets held by Government Business Enterprises (GBEs) be accounted for under IAS 36. GBEs are profit-oriented entities and the assets employed by them are primarily cash-generating assets. The Committee believes it is more appropriate to account for the impairment of non-cash-generating assets held by GBEs under IAS 36 for the following reasons:

- (a) Those GBE’s that hold non-cash-generating assets do so to discharge their community service obligations as required by regulations. The acceptance of such obligations often acts as a precondition for engaging in profit-making operations. Accordingly, non-cash-generating assets are regarded as an integral part of cash-generating operations. An analogy may be drawn with additional expenditure that a private sector entity is

IMPAIRMENT OF NON-CASH-GENERATING ASSETS

required to incur for the installation of equipments to reduce the emission of harmful gases. Such expenditure is required under the safety regulations and cannot be avoided if the entity is to carry out its operations. As such, the incurrence of this expenditure is a precondition for the performance of activities and an integral part of the costs of operations;

- (b) Non-cash-generating assets held by GBEs to carry out their community service obligations are often not material compared with the cash-generating assets. In such cases, in addition to the reason noted in (a) above, cost benefit considerations may not warrant accounting for impairment of non-cash-generating assets separately; and
- (c) The *Preface to International Financial Reporting Standards* (2002) has made it clear that IASB Standards are to be applied by profit-oriented entities. GBEs are profit-oriented entities and are therefore required to comply with IFRSs and IASs. Individual International Public Sector Accounting Standards make it explicit that IASB Standards ~~should be applied~~ apply to GBEs.

Accordingly, non-cash-generating assets are expected to be appropriately grouped with cash-generating assets of GBEs to form a cash-generating unit to be tested for impairment in accordance with IAS 36.

Comparison with IAS 36

International Public Sector Accounting Standard IPSAS XX *Impairment of Assets* deals with the impairment of assets in the public sector. The main differences between IPSAS XX and International Accounting Standard IAS 36, "Impairment of Assets" are as follows:

- IPSAS ~~XX-21~~ deals with the impairment of assets of public sector entities while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS ~~XX-21~~, however, requires that the impairment of cash-generating assets of public sector entities including those of Government Business Enterprises be accounted for under IAS 36.
- IPSAS ~~XX-21~~ does not apply to non-cash-generating assets carried at fair value at the reporting date under the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 17, "Property, Plant and Equipment." IAS 36 does not ~~explicitly include a similar exclusion in respect of~~ exclude cash-generating property, plant and equipment carried at fair value at the reporting date
- The method of measurement of value in use of a non-cash-generating asset under IPSAS ~~XX-21~~ is different from that applied to a cash-generating asset under IAS 36. IPSAS ~~XX-21~~ measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS ~~XX-21~~ does not ~~give prominence to~~ include a change in the market value of the asset as ~~an~~ a "black letter" indicator of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indicators of impairment while IPSAS XX refers to it in commentary.
- IPSAS ~~XX-21~~ includes a decision to halt the construction of an asset before completion as an indicator of impairment and the resumption of the construction of the asset as an indicator of reversal of the impairment loss. There are no equivalents in IAS 36.
- IPSAS ~~XX-21~~ deals with the impairment of individual assets. There is no equivalent in IPSAS ~~XX-21~~ for a cash-generating unit as defined in IAS 36.

- IPSAS ~~XX~~21 deals with “corporate assets” in the same manner as other non-cash-generating assets while IAS 36 deals with them as part of related cash-generating units.
- IPSAS ~~XX~~21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms “~~entity,~~” “revenue,” “recoverable service amount,” “statement of financial performance” and “statement of financial position” in IPSAS ~~XX~~21. The equivalent terms in IAS 36 are “~~enterprise,~~” “income,” “recoverable amount,” “income statement” and “balance sheet.”
- ~~IPSAS XX contains many of the definitions of technical terms used in IAS 36 and an additional glossary of other defined terms.~~

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8. ED 23 *IMPAIRMENT OF ASSETS*

The Committee received and noted:

- A memorandum from Matthew Bohun;
- A summary of responses to Exposure Draft 23 *Impairment of Assets*;
- A table of editorial and other comments on ED 23;
- A summary of GASB Statement 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; and
- A copy of submissions received on ED 23.

Matthew Bohun introduced the topic noting that the time between the closing of comments and the distribution of agenda materials was very short, and that there was insufficient time to prepare a draft IPSAS. Staff noted that in developing the Exposure Draft the PSC established for itself some principles on which to base a standard on impairment of assets and that the Staff analysis of the responses was in the context of these principles. These principles were:

- If an asset is a “cash-generating asset” as defined, then entities should apply IAS 36 *Impairment of Assets* in recognizing and measuring any impairment;
- Where impairment requirements exist in other IPSASs, those requirements take precedence over any impairment IPSAS;
- Assets measured at fair value do not need to be tested for impairment (some exceptions have been made to this general rule, such as for biological assets related to agricultural activity);
- A two stage process should be adopted for impairment:
 - Testing whether an indicator of impairment is present, and
 - If an indicator is present, testing whether the carrying amount of the asset is higher than its recoverable service amount;
- A present value notion of service potential should be adopted; and
- Generally speaking, an IPSAS should not vary from the requirements of IAS 36 unless there is a public sector specific reason for doing so. The PSC has made a number of exceptions to this general principle in other IPSASs, and in ED 23.

Staff noted that thirty-one responses had been received on ED 23 in sufficient time for inclusion in the analysis. Some members expressed concern that the majority of responses were from Australia, New Zealand and the United Kingdom and that this may give the perception of bias in the analysis, other members noted that it is inherently difficult to obtain responses to Exposure Drafts and that the PSC can only deal with the responses it receives. It was difficult to ascribe motives to respondents’ decisions to respond, however:

- The response rate is not unusual compared to other PSC EDs; and
- The response rate compares favorably with those experienced by national standard setters; and.

~~Entities that received a copy of the ED, but did not respond may have agreed with the proposals in the ED.~~

Specific Matters for Comment

The PSC discussed the responses to the specific matters for comment.

(a) *Scope of the proposed IPSAS*

ED 23 proposed that property, plant and equipment carried at revalued amounts in accordance with the allowed alternative under IPSAS 17 *Property, Plant and Equipment* be excluded from the scope of the IPSAS on impairment. The PSC noted that a significant number of respondents argued that such assets should be excluded from the scope of the proposed standard, but others were in favor of including these assets within the scope of the proposed IPSAS, because they were within the scope of IAS 36 and respondents argued that there is no public sector specific reason to exclude them. Members noted that the reason for excluding these assets from the scope of the ED was that IPSAS 17 requires that assets subject to revaluation be carried at an amount that is not materially different from their fair value as at the reporting date, it is, therefore, unnecessary to subject such assets to an impairment test. The PSC discussed whether value-in-use and fair value could give different measures of an asset's value, and whether an impairment loss should be recognized in such circumstances. The PSC discussed this issue and agreed that the draft IPSAS to be discussed at the next meeting should exclude from the scope property, plant and equipment carried at revalued amounts. The PSC also agreed that the Basis for Conclusions of this draft should be more explicit about justify the exclusion of property, plant and equipment carried at revalued amounts and explain the reasons for differing from IAS 36 and that the issue should be reconsidered in the context of those reasons.

ED 23 proposed that biological assets related to agriculture, other than those carried at fair value, intangible assets and goodwill should be ~~implicitly~~ included within the scope of the IPSAS on impairment. The PSC noted that some respondents had expressed concern about including these assets within the scope of the IPSAS. The PSC discussed the appropriate wording in relation to biological assets relating to agricultural ~~assets~~ activity, and noted that it had still to discuss the applicability of IAS 41 *Agriculture* to the public sector. The PSC made the preliminary decision that at this stage it would retain the staff's recommendation that the IPSAS should exclude from its scope biological assets related to agricultural activity carried at fair value in accordance with an international ~~or national international~~ or national accounting standard on agriculture adopted by the entity. However, the PSC also indicated that it would review this decision at its next meeting.

(b) *Definition of Cash-Generating Asset*

Staff noted that a number of respondents had interpreted the definition of "cash-generating asset" as changing the characteristics of GBEs to require them to generate a commercial rate of return. Staff proposed amending the definition of "cash-generating asset" to remove the reference to the assets of GBEs. The PSC agreed to this amendment.

The PSC discussed the nature of “commercial rate of return” and some members expressed the concern that this term was confusing. The PSC agreed to remove “rate of” from the definition and directed staff to include in the draft IPSAS commentary on what was meant by a “commercial ~~rate of~~ return” for consideration at the next PSC meeting; this commentary would be considered at the next meeting of the PSC.

(c) *Assessing Indicators at Each Reporting Date*

The PSC noted that most respondents agreed with its proposal to require entities to assess at each reporting date whether an indicator of impairment was present. The PSC did not propose amending the draft IPSAS in relation to this issue.

(d) *Assess recoverable service amount when an indicator of impairment is present at reporting date*

The PSC noted that most respondents agreed with its proposal to require entities to assess the recoverable service amount of an asset when an indicator of impairment is present at reporting date. The PSC did not propose amending the draft IPSAS in relation to this issue.

(e) *Exclude a decline in market value from the minimum indicators of impairment in “black letter”*

The PSC noted that a majority of the respondents that expressed a view on this issue supported its proposal to exclude a change in market value from the list of minimum indicators of impairment. However, the PSC also noted that a significant number of respondents argued that there was no public sector specific reason to depart from the requirements of IAS 36, which includes an unexpected decline in market value in the list of minimum indicators of impairment. The PSC discussed this issue. Some members argued that a decline in market value should be an indicator of impairment and that governments are held accountable for decisions to hold assets that decline in market value, these members noted that in some circumstances it is difficult to measure fair value. Other members argued that while the market value of an asset may decline, the asset may still be able to deliver the same level of service and therefore no impairment should be recognized. The PSC ~~and~~ concluded that the public sector specific reason for excluding an unexpected change in market value from the list of indicators in black letter is that the assets within the scope of this standard are non-cash-generating assets, whereas IAS 36 focuses on assets that are defined in ED 23 as cash-generating assets.

Staff noted that the commentary paragraph 21 states that a decline in market value may be an indicator of impairment. Staff pointed out that this guidance does not replicate the requirement in IAS 36 that such a decline must be unexpected. Staff noted that in many instances an entity will be aware that an asset’s market value will decline substantially immediately it is acquired and that an entity will take this into account when estimating any residual value, staff recommended that paragraph 21(a) be amended to reflect the requirement of IAS 36. The PSC agreed that whilst an unexpected change in market value should not be included in the minimum indicators of impairment in black letter.

However, at this stage the draft IPSAS being to be prepared for the July 2004 should include the commentary in paragraph 21(a) but the commentary should reflect the IAS 36 requirement that such a change be unexpected. The PSC will review this commentary at its meeting in July.

(f) *Reduction in demand as an indicator of impairment*

ED 23 proposed that cessation of demand be an indicator of impairment, but did not propose that a significant reduction in demand other than cessation be an indicator of impairment. The majority of respondents were of the view that a significant reduction in demand should be an indicator of impairment, and that a significant increase in demand be an indicator of reversal of impairment.

The PSC discussed this issue and noted that there may be some difficulty in determining what “significant” means in relation to impairment – some members suggested that accounting practice in ~~most~~many jurisdictions ~~suggests~~indicates that a ten percent variation in a reported amount is considered significant. Some members considered that commentary might indicate when a significant decline in demand warranted an assessment of an asset’s recoverable service amount. The PSC directed staff to reexamine the respondents’ comments and to prepare recommendations for the next meeting.

(g) *Measurement of the value in use of a non-cash-generating asset*

ED 23 proposed that entities be required to measure the value in use of non-cash-generating assets using the depreciated replacement cost, restoration cost, or service units approaches. Most respondents agreed that these were appropriate methods of measuring value-in-use, consequently the PSC did not propose amending the draft IPSAS in relation to this issue.

(h) *Are the depreciated replacement cost, restoration cost and service units approach a single measurement approach or three separate approaches?*

ED 23 treats the three approaches to measuring value-in-use as separate approaches, however the majority of respondents view them as a single approach. A number of members expressed the concern that if the three approaches are to be considered as separate, this may have consequences for the revaluation provisions of IPSAS 17 *Property, Plant and Equipment*, which permit depreciated replacement cost as a method of determining fair value. These members felt that if the restoration cost and service units approaches were described as methods of calculating depreciated replacement cost, there would be no consistency problems. The PSC directed staff to examine this issue in relation to the amendments being proposed in respect of IPSAS 17 and prepare proposals for the next meeting. Some members expressed the view that the proposed IPSAS should give more direction on when to use each of the three approaches to measuring value in use. Some members expressed concern that some of the illustrative examples were not consistent with the provisions of the IPSAS with regard to measuring value in use, staff were directed to examine the illustrative examples and ensure that they are consistent with the proposed IPSAS.

- (i) *Recognize an impairment loss and reduce the carrying amount of an asset when the asset's recoverable service amount is less than its carrying amount*

ED 23 proposed requiring entities to recognize an impairment loss when an asset's carrying amount is higher than its recoverable service amount. Most respondents agree with this approach. Members discussed this issue and felt that the commentary related to this issue could usefully refer entities to IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*.

The PSC noted in relation to all of the following issues that respondents concurred with the PSC's view as expressed in the Exposure Draft. The PSC did not propose amendments to the proposed standard in relation to these issues.

- (j) *Requirement to assess whether an impairment loss is no longer present*
- (k) *Requirement to assess recoverable service amount when an indicator of reversal of impairment exists*
- (l) *Recognize a reversal of impairment loss when the recoverable service amount is higher than the carrying amount*
- (m) *Disclosures*

Other Issues

Members directed staff to consider whether obsolescence should be included as an indicator of impairment of an asset. Members also directed staff to include an example of an impaired intangible asset in the appendix.

Members directed staff to prepare a draft IPSAS for consideration at the next meeting. In addition to the matters above the draft should:

- Include a more comprehensive Basis for Conclusions that provides reasons for adopting the positions in the IPSAS and explains differences between the IPSAS and IAS 36 and clearly identifies why an impairment test should not be applied to property, plant and equipment carried at revalued amounts;
- Includes any additional amendments arising from the issuing-issuance of the updated IAS 36; and
- Identify the differences between measurement of fair value in IPSAS 17 and the recoverable service amount under the proposed standards and identifies the circumstance in which value-in-use may not be equivalent to fair value

Action Required: *Prepare draft IPSAS.*
Person(s) Responsible: *PSC Staff.*

International Public Sector Accounting

Standard

Impairment of Cash Generating Assets

ILLUSTRATION OF PROPOSED
ENDORSEMENT STATEMENT

FOR REVIEW AT PSC MEETING
JULY 2004



International Federation
of Accountants

This DRAFT Standard was [XX INSERT APPROVAL] by the Public Sector Committee of the International Federation of Accountants.

ACKNOWLEDGMENT

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The approved text of this Standard is that published in the English language.

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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants' Public Sector Committee (the Committee) is developing recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized.

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

International Public Sector Accounting Standard IPSAS 22X

Impairment of Cash-Generating Assets

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IMPAIRMENT OF CASH-GENERATING ASSETS

International Public Sector Accounting Standard IPSAS 22X

Impairment of Cash-Generating Assets

Statement of Endorsement

E1. The Public Sector Committee (PSC) has considered the issues related to accounting for impairment of cash-generating assets in the general purpose financial statements of public sector entities and does not consider that there are public sector specific considerations that warrant different financial reporting requirements to those prescribed by International Accounting Standard IAS 36 *Impairment of Assets*. The PSC therefore proposes to adopt IAS 36 unchanged, as International Public Sector Accounting Standard IPSAS 22X *Impairment of Cash-Generating Assets*. Paragraphs E2 – E11 identify implementation requirements for public sector entities.

Effective Date

E2. International Public Sector Accounting Standard 22X *Impairment of Cash-Generating Assets* becomes effective for annual financial statements covering periods beginning on or after Month XX, 20XX (proposed to be January 1, 2009 in the strategy for harmonization).

E3. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Impairment of Cash-Generating Assets In The Public Sector

E4. In many jurisdictions, Government Business Enterprises (GBEs) are likely to be the principle public sector entities controlling cash-generating assets. However, non-GBE public sector entities may control cash-generating assets, either directly or through controlled entities. Adopting IAS 36 as an IPSAS ensures that an appropriate and relevant accounting standard is adopted by public sector entities for financial reporting of impairment of cash-generating assets.

Introduction to IAS 36

E5. The IASB’s Introduction to IAS 36 is reproduced in this Standard. The Introduction to IAS 36 is not part of the authoritative IAS 36, but is included as an aid to understanding the IAS. Similarly, the Introduction to IAS 36 is not part of the authoritative IPSAS 22X.

Scope

E6. Public sector entities that hold non-cash-generating assets as defined in paragraph 13 of IPSAS 21X *Impairment of Non-Cash-Generating Assets* shall apply IPSAS 21X to such assets. The scope of IPSAS 22X should be interpreted as applying to all public sector entities other than GBEs. GBEs are required to comply with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

References to Other Standards

E7. References in IAS 36 to other IFRSs/IASs should be interpreted as referring to other IPSASs, where the PSC has issued an equivalent IPSAS. Where the PSC has not issued or endorsed an equivalent IPSAS, a reference to another IFRS/IAS should be interpreted as reference to “guidance” rather than an authoritative statement of the PSC. The table below indicates the appropriate IPSASs to be referred to:

IFRS/IAS Referred To In IAS 36	Equivalent IPSAS
IAS 2 <i>Inventories</i>	IPSAS 12 <i>Inventories</i>
IAS 11 <i>Construction Contracts</i>	IPSAS 11 <i>Construction Contracts</i>
IAS 12 <i>Income Taxes</i>	No equivalent IPSAS*
IAS 14 <i>Segment Reporting</i>	IPSAS 18 <i>Segment Reporting</i>
IAS 19 <i>Employee Benefits</i>	IPSAS XX <i>Employee Benefits</i> (under development)†
IAS 16 <i>Property, Plant and Equipment</i>	IPSAS 17 <i>Property, Plant and Equipment</i>
IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>	IPSAS 4 <i>The Effects of Changes in Foreign Exchange Rates</i>

* An IPSAS on this topic falls into the “type 2” endorsements, as proposed in the strategy on harmonization.

† IPSASs on these topics fall into the “type 1” endorsements, as proposed in the strategy on harmonization.

IMPAIRMENT OF CASH-GENERATING ASSETS

IFRS/IAS Referred To In IAS 36	Equivalent IPSAS
IAS 27 <i>Consolidated and Separate Financial Statements</i>	IPSAS 6 <i>Consolidated Financial Statements and Accounting for Controlled Entities</i>
IAS 28 <i>Investments in Associates</i>	IPSAS 7 <i>Accounting for Investments in Associates</i>
IAS 31 <i>Interests in Joint Ventures</i>	IPSAS 8 <i>Financial Reporting of Interests in Joint Ventures</i>
IAS 38 <i>Intangible Assets</i>	IPSAS XX <i>Intangible Assets</i> (under development) [†]
IFRS 3 <i>Business Combinations</i>	IPSAS XX <i>Business Combinations</i> (under development) [†]
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i>
IAS 40 <i>Investment Property</i>	IPSAS 16 <i>Investment Property</i>
IAS 41 <i>Agriculture</i>	IPSAS XX <i>Agriculture</i> (under development) [†]

IPSAS 18 Segment Reporting

E8. IPSAS 18 *Segment Reporting* defines segments differently from IAS 14 *Segment Reporting*. IPSAS 18 requires entities to report segments on a basis appropriate for assessing past performance and making decision about the allocation of resources. IPSAS 18 does not require the disclosure of segment result, however it does require the disclosure of segment revenue and segment expenses. The disclosures in IAS 36 in relation to segment reporting require the disclosure of impairment losses and reversals recognized in profit or loss. These requirements shall be interpreted as disclosure of impairment losses and reversals included in segment revenue or segment expenses.

Terminology

E9. In some cases IPSASs use different terminology to IASs/IFRSs. In applying IPSAS 23X, entities shall use the following table to determine the appropriate public sector terminology, the definitions of IPSAS terms are

[†] IPSASs on these topics fall into the “type 1” endorsements, as proposed in the strategy on harmonization.

IMPAIRMENT OF CASH-GENERATING ASSETS

found in individual IPSASs and in the IPSAS *Glossary of Defined Terms* published separately:

IASB Term	IPSAS Term
Balance Sheet	Statement of Financial Position
Income Statement	Statement of Financial Performance
Equity	Net assets/equity
Income	Revenue
Profit and loss	Surplus/deficit for the period

Appendix A to IAS 36

- E10. IPSAS 22X reproduces IAS 36 – Appendix A *Using Present Value Techniques to Measure Value in Use*. Appendix A is an integral part of the authoritative IAS. Similarly, Appendix A is an integral part of IPSAS 22X.
- E11. IPSAS 22X reproduces IAS 36 – Appendix B *Amendments to IAS 16*. The Appendix is authoritative, however, its purpose is to make further amendments to the previous version of IAS 36, which had most recently been amended by the appendix to the revised IAS 16. This appendix will only be relevant to entities that adopted IAS 36 as an accounting policy, in the absence of an IPSAS, and who do not implement this IPSAS immediately.

Interpretations of International Financial Reporting Standards

- E12. There are no Standing Interpretation Committee Interpretations (SICs) or International Financial Reporting Interpretation Committee Interpretations (IFRICs) on issue in relation to IAS 36.

*Proposed International Public Sector
Accounting Standard*

Non-Current Assets Held For Sale And Discontinued Operations

ILLUSTRATION OF PROPOSED
ENDORSEMENT STATEMENT

FOR REVIEW AT PSC MEETING
JULY 2004



International Federation
of Accountants

This DRAFT Exposure Draft was [XX INSERT APPROVAL] by the Public Sector Committee of the International Federation of Accountants.

ACKNOWLEDGMENT

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The approved text of this Standard is that published in the English language.

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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants' Public Sector Committee (the Committee) is developing recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized.

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

International Public Sector Accounting Standard IPSAS XX

Non-current Assets Held for Sale and Discontinued Operations

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International Public Sector Accounting Standard IPSAS XX

Non-current Assets Held for Sale and Discontinued Operations

Statement of Endorsement

E1. The Public Sector Committee (PSC) has considered the issues related to accounting for non-current assets held for sale and discontinued operations in the general purpose financial statements of public sector entities and does not consider that there are public sector specific considerations that warrant different financial reporting requirements to those prescribed by International Financial Reporting Standard IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The PSC therefore proposes to adopt IFRS 5 unchanged, as International Public Sector Accounting Standard IPSAS XX *Non-current Assets Held for Sale and Discontinued Operations*. Paragraphs E2 to E9 identify implementation requirements for public sector entities.

Effective Date

E2. International Public Sector Accounting Standard IPSAS XX *Non-current Assets Held for Sale and Discontinued Operations* becomes effective for annual financial statements covering periods beginning on or after Month XX, 20XX (proposed to be January 1, 2009 in the strategy for harmonization).

E3. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Non-current Assets Held for Sale and Discontinued Operations In The Public Sector

E4. Adopting IFRS 5 as an IPSAS ensures that an appropriate and relevant accounting standard is adopted by public sector entities for financial reporting for non-current assets held for disclosure and discontinued operations.

Introduction to IFRS 5 and Guidance on Implementing IFRS 5

E5. The IASB's Introduction to IFRS 5 and *Guidance on Implementing IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* are

reproduced in this Standard. The Introduction to IFRS 5 and the *Guidance on Implementing IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* are not part of the authoritative IFRS 5, but are included them as an aid to understanding the IFRS. Similarly, the Introduction to IFRS 5 and *Guidance on Implementing IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* are not part of the authoritative IPSAS XX.

Scope

E6. The scope of IPSAS XX shall be interpreted as applying to all public sector entities other than Government Business Enterprises (GBEs). GBEs are required to comply with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

References to Other Standards

E7. References in IFRS 5 to other IFRSs/IASs shall be read as referring to other IPSASs, where the PSC has issued an equivalent IPSAS. Where the PSC has not issued or endorsed an equivalent IPSAS, a reference to another IAS shall be read as reference to “guidance” rather than an authoritative statement of the PSC. The table below indicates the appropriate IPSASs to be referred to:

IAS Referred To In IFRS 5	Equivalent IPSAS
IAS 1 <i>Presentation of Financial Statements</i>	IPSAS 1 <i>Presentation of Financial Statements</i>
IAS 12 <i>Income Taxes</i>	No equivalent IPSAS*
IAS 14 <i>Segment Reporting</i>	IPSAS 18 <i>Segment Reporting</i>
IAS 16 <i>Property, Plant and Equipment</i>	IPSAS 17 <i>Property, Plant and Equipment</i>
IAS 19 <i>Employee Benefits</i>	IPSAS XX <i>Employee Benefits</i> (under development)†
IAS 36 <i>Impairment of Assets</i>	IPSAS 21X <i>Impairment of Non-Cash-Generating Assets</i> and IPSAS 22X <i>Impairment of Cash-Generating Assets</i> (under development)†
IAS 38 <i>Intangible Assets</i>	IPSAS XX <i>Intangible Assets</i> (under development) †
IAS 39 <i>Financial Instruments:</i>	IPSAS XX <i>Financial Instruments:</i>

* IPSASs on these topics fall into the “type 2” endorsements, as proposed in the strategy on harmonization.

† IPSASs on these topics fall into the “type 1” endorsements, as proposed in the strategy on harmonization.

IAS Referred To In IFRS 5	Equivalent IPSAS
<i>Recognition and Measurement</i>	<i>Recognition and Measurement</i> [†]
IAS 40 <i>Investment Property</i>	IPSAS 16 <i>Investment Property</i>
IAS 41 <i>Agriculture</i>	IPSAS 23X <i>Agriculture</i>
IFRS 4 <i>Insurance Contracts</i>	No equivalent IPSAS [*]

Terminology

E8. In some cases IPSASs use different terminology to IASs/IFRSs. In applying IPSAS XX, entities shall use the following table to determine the appropriate public sector terminology, the definitions of IPSAS terms are found in individual IPSASs and reproduced in the IPSAS *Glossary of Defined Terms* published separately:

IASB Term	IPSAS Term
Balance Sheet	Statement of Financial Position
Equity	Net assets/equity
Statement of Changes in Equity	Statement of Changes in Net Assets/Equity
Income	Revenue
Balance sheet date	Reporting Date
Profit or loss	Surplus or deficit
Subsidiary	Controlled entity

Appendix C to IFRS 5

E9. IPSAS XX does not reproduce Appendix C to IFRS 5 *Amendment to Other IFRSs*. This is because this Statement of Endorsement provides the relevant information for amendments to other IPSASs.

Interpretations of International Financial Reporting Standards

E10. There are no Standing Interpretation Committee Interpretations (SICs) or International Financial Reporting Interpretation Committee Interpretations (IFRICs) on issue in relation to IFRS 5.

Amendments to Existing IPSASs

E11. This Standard amends existing IPSAS 19 as set out below. These amendments were also made to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* issued by the IASB. IFRS 5 also amended other IFRSs, however the equivalent IPSASs are included in the IPSAS improvement program and all amendments to those IPSASs are included as part of that program.

Amendments to IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

E12. Paragraph 17A is added to read as follows:

17A. This Standard applies to provisions for restructurings (including discontinued operations). When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

- Summary and Recommendation

The IASB issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in March 2004. The PSC does not have an equivalent IPSAS on non-current assets held for sale and discontinued operations. Staff have reviewed IFRS 5 and propose that it be endorsed.

Part 1 – Recommendation on dealing with Non-current Assets Held for Sale and Discontinued Operations

Public sector entities may hold non-current assets or disposal groups for sale. For example, a government might be planning to dispose part of a telecommunications agency it owns within one year's time, and the government has initiated a very active plan to seek a buyer. In this case, the part of the telecommunications agency may meet the criteria for classifying as a non-current asset held for sale or as a disposal group.

IFRS 5 deals with the circumstances in which assets are held for sale in arm's length transactions. If a public sector entity holds assets for sale in the same circumstances as contemplated in IFRS 5, the classification criteria and measurement requirements in IFRS 5 would apply to the public sector, and the additional disclosure requirements would be equally important for the public sector. Therefore, there is no public sector specific reason for a departure from the requirements contained in IFRS 5.

Staff Recommendation

Staff are of the view that the PSC should not develop an IPSAS dealing with non-current assets held for sale and discontinued operations, and should positively endorse IFRS 5 (refer to the Strategy Paper for the meaning of "positive endorsement" approach). Endorsing IFRS 5 will not only solve the cross-referencing difficulties that the PSC will have experienced in updating existing IPSASs (see below for a list of them), but also maintain the consistency of the substance with equivalent IFRSs/IASs in respect of the measurement of non-current assets classified as held for sale.

However, Staff acknowledge that assets might be transferred from one public sector entity to another public sector entity as part of restructuring of administrative arrangements. These transfers are not a sale at arm's length and are not addressed in IFRS 5. To deal with these transactions, a separate project would need to be initiated.

The project may lead to the development of a new IPSAS or amendments to existing IPSASs, such as IPSAS 17.

Implications of Endorsing IFRS 5 for existing IPSASs

IFRS 5 mainly impacts following 8 existing IPSASs. Changes to other IPSASs are consequential editorials.

- IPSAS 1 *Presentation of Financial Statements* (IAS 1 *Presentation of Financial Statements*)
- IPSAS 6 *Consolidated and Separate Financial Statements* (IAS 27 *Consolidated and Separate Financial Statements*)
- IPSAS 7 *Interests in Associates* (IAS 28 *Interests in Associates*)
- IPSAS 8 *Interests in Jointly Controlled Entities* (IAS 31 *Interests in Jointly Controlled Entities*)
- IPSAS 13 *Leases* (IAS 17 *Leases*)
- IPSAS 14 *Events after the Reporting Date* (IAS 10 *Events after the Balance Sheet Date*)
- IPSAS 16 *Investment Property* (IAS 40 *Investment Property*)
- IPSAS 17 *Property, Plant and Equipment* (IAS 16 *Property, Plant and Equipment*)

Detailed impacts resulting from issuing IFRS 5 are identified and categorized below, together with Staff recommendation thereon.

Scope Exclusion (IAS 16 /IPSAS 17)

A sub-paragraph has been incorporated into the scope exclusion of IAS 16 *Property, Plant and Equipment* to reflect that property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* will follow IFRS 5. IPSAS 17 does not have this exclusion in its scope.

Measurement of Non-current Assets Held for Sale other than Investments

IFRS 5 requires measuring non-currents assets classified as held for sale at the lower of the carrying amount and fair value less costs to sell. The measurement requirement is not fully consistent with the existing subsequent measurement

requirements in IAS 17 *Leases* and IAS 40 *Investment Property*. As a result, a new paragraph has been incorporated into IAS 17 to reflect that, where non-current assets under a finance lease are classified as held for sale, they will be dealt with in accordance with IFRS 5. Similar amendments have been introduced to IAS 40 in respect of the subsequent measurement of investment property under cost model. These revisions will impact IPSAS 13 and IPSAS 16.

In accordance with IFRS 5, non-current assets classified as held for sale are not depreciated after the date of their classification. Accordingly, the timing of cessation of depreciating non-current assets in IAS 16 has been changed by IFRS 5 (Appendix C *Amendments to other pronouncements* in IFRS 5 identifies the consequential changes to other IFRSs/IASs) to “the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognized”, rather than simply “the date that the asset is derecognized”. This change will impact IPSAS 17.

Removal of Certain Exemptions for Investments Acquired and Held Exclusively for Resale and Measurement of Investments Classified as Held for Sale

The exemption from consolidation in IAS 27 *Consolidated and Separate Financial Statements* (revised in 2003) for subsidiaries acquired and held exclusively with a view to resale has been removed by IFRS 5 to make all assets (and disposal groups) that meet the criteria of held for sale to be treated in the same way. As such, all subsidiaries shall be consolidated without exemption.

IFRS 5 has also amended similar exemption from using the equity method for investments in associates in IAS 28 *Interests in Associates* (revised in 2003) and exemption from using the proportionate consolidation or the equity method for investments in jointly controlled entities in IAS 31 *Interests in Jointly Controlled Entities* (revised in 2003).

IAS 27 required investments in subsidiaries, jointly controlled entities and associates in separate financial statements to be accounted for either at cost or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, which is fair value. Therefore, IFRS 5 has amended IAS 27 to reflect that the investments classified as held for sale under IFRS 5 should comply with the measurement requirement in IFRS 5. Similar amendments have also incorporated into IAS 28 and IAS 31.

The removal of the exemptions and the amendments to the accounting for certain investments in IAS 27, IAS 28 and IAS 31 will impact IPSAS 6, IPSAS 7 and IPSAS 8.

Presentation and Disclosure

IFRS 5 requires presenting separately from other assets on the face of the balance sheet, the non-current assets classified as held for sale and included in disposal groups classified as held for sale. Liabilities included in disposal groups classified as held for sale are also to be presented separately from other liabilities. It also requires presenting separately the results of discontinued operations on the face of income statement as a single amount.

IAS 1 *Presentation of Financial Statements* has been amended to reflect this change. Certain existing disclosure requirements regarding non-current assets in other IASs have also been amended, for example, IAS 16 and IAS 40.

These additional presentation and disclosure requirements mainly impact IPSAS 1, IPSAS 14, IPSAS 16 and IPSAS 17.

Changes made to IAS 14 *Segment Reporting*

The disclosure requirements regarding segment result in IAS 14 *Segment Reporting* were amended to require an entity to present the result from continuing operations separately from the result from the discontinued operations. It was also amended to require an entity to restate segment results in prior periods presented in the financial statements so that the disclosures relating to discontinued operations relate to all operations that had been classified as discontinued at the balance sheet date of the latest period presented.

IPSAS 18 *Segment Reporting* does not require the disclosure of segment results. Consequently, the changes made to IAS 14 do not impact IPSAS 18.

Staff Recommendation on the Consequential Changes to existing IPSASs

Consistent with the “positive endorsement” recommendation, Staff are of the view that except for the consequential changes made to IAS 14 (IPSAS 18), the amendments made to the listed 8 IPSASs should be updated to reflect the changes made to their equivalent IASs upon issuing IFRS 5. Where IASs refer to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the equivalent IPSASs should refer to IPSAS XX *Non-current Assets Held for Sale and Discontinued Operations* (ie., the positively endorsed version of IFRS 5).

Part 2 – Summary of IFRS 5

Part 2 provides a brief summary of main requirements of IFRS 5.

1. Introduction

1.1 IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* was issued on 31 March 2004. It supersedes IAS 35 *Discontinuing Operations*. IFRS 5 applies to annual periods beginning on or after 1 January 2005. Earlier application is encouraged. IFRS 5 is the first standard to arise from the IASB's joint convergence project with the Financial Accounting Standards Board (FASB) in the USA.

2. Scope

2.1 IFRS 5 applies to the classification and presentation of all recognized non-current assets and disposal groups of an entity. It applies to the measurement of all recognized non-current assets and disposal groups except for those assets listed below, which shall continue to be measured in accordance with the Standard noted either as individual assets or as part of a disposal group:

- (a) deferred tax assets (IAS 12 *Income Taxes*).
- (b) assets arising from employee benefits (IAS 19 *Employee Benefits*).
- (c) financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.
- (d) non-current assets that are accounted for in accordance with the fair value model in IAS 40 *Investment Property*.
- (e) non-current assets that are measured at fair value less estimated point-of-sale costs in accordance with IAS 41 *Agriculture*.
- (f) contractual rights under insurance contracts as defined in IFRS 4 *Insurance Contracts*.

2.2 A "disposal group" is defined in IFRS 5 as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with IAS 36 *Impairment of Assets* (revised in 2004) or if it is an operation within such a cash-generating unit. The

disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit. The group may include any assets and any liabilities, including current assets, current liabilities and assets excluded from the measurement requirements of IFRS 5 as listed in paragraph 2.1.

3. Classification of Non-current Assets or Disposal Groups as Held for Sale

- 3.1 IFRS 5 requires an entity to classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. A sale transaction includes an exchange of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IAS 16 *Property, Plant and Equipment* (revised in 2003).
- 3.2 For an asset to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets (or disposal groups), and its sale must be highly probable. If the following criteria are met, the sale is considered to be highly probable¹:
- (a) the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated;
 - (b) the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
 - (c) the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification except in limited situations; and
 - (d) actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- 3.3 Non-current assets (or disposal groups) that are to be abandoned, including non-current assets (or disposal groups) to be used to the end of their economic life and non-current assets (or disposal groups) to be closed rather than sold, shall not be classified as held for sale.

¹ “Highly probable” is defined in IFRS 5 as “significantly more likely than probable”, while “probable” is defined as “more likely than not”.

4. Measurement of Non-current Assets or Disposal Groups Classified as Held for Sale

- 4.1 A non-current asset (or disposal group) classified as held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell. If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale, the asset (or disposal group) shall be measured at the lower of its carrying amount had it not been so classified and fair value less costs to sell on its initial recognition. Consequently, if the asset (or disposal group) is acquired in a business combination, it shall be measured at fair value less costs to sell.
- 4.2 An entity is not allowed to depreciate or amortize a non-current asset when the asset is classified as held for sale or included in a disposal group that is classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.
- 4.3 An entity shall recognize an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, except for the assets that are measured in accordance with other Standards as specified in paragraph 2.1.
- 4.4 Any reversal of the impairment loss recognized in accordance with this Standard shall be recognized as a gain for any subsequent increase in fair value less costs to sell of an asset, except for the assets that are measured in accordance with other Standards as specified in paragraph 2.1, but not in excess of the cumulative impairment loss that has been recognized.
- 4.5 The impairment loss (or any subsequent gain) recognized for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of IFRS 5, in the order of allocation set out in IAS 36.
- 4.6 If an entity has classified an asset (or disposal group) as held for sale, but the criteria in IFRS 5 are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale. For the asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale), the entity shall measure it at the lower of:
- (a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale; and

- (b) recoverable amount at the date of the subsequent decision not to sell.

4.7 If an entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the classification criteria as held for sale in IFRS 5. Otherwise, the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale shall be measured individually at the lower of their carrying amounts and fair value less costs to sell at that date. Any non-current assets that do not meet the criteria shall cease to be classified as held for sale and shall be measured in accordance with paragraph 4.6.

5. Presentation and Disclosure of a Non-current Asset or Disposal Group Classified as Held for Sale

5.1 An entity shall present non-current assets or disposal groups classified as held for sale in the following manner:

- (a) non-current assets classified as held for sale and the assets of a disposal group classified as held for sale shall be presented separately from other assets in the balance sheet;
- (b) the liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the balance sheet;
- (c) assets and liabilities classified as held for sale shall not be offset and presented as a single amount;
- (d) the major classes of assets and liabilities classified as held for sale shall be separately disclosed either on the face of the balance sheet or in the note, except the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition; and
- (e) any cumulative income or expense recognized directly in equity relating to a non-current asset (or disposal group) classified as held for sale shall be separately presented.

6. Presentation and Disclosure of Discontinued Operations

6.1 A discontinued operation is defined in IFRS 5 as a component of entity that either has been disposed of, or is classified as held for sale, and

- (a) represents a separate major line of business or geographical area of operations;
- (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) is a subsidiary acquired exclusively with a view to resale.

The timing of classification for an operation as discontinuing in IAS 35 *Discontinuing Operations* was at the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan.

- 6.2 An entity shall present separately on the face of the income statement a single amount reflecting the results of discontinued operations, which comprises the total of (a) the post-tax profit or loss of discontinued operations and (b) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation. The disclosures of an analysis of this single amount and the net cash flows attributable to the operating, investing and financing activities of discontinued operations are also required, either in the notes or on the face of the financial statements.