



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 28 FEBRUARY 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: JOHN STANFORD
SUBJECT: IMPAIRMENT OF CASH-GENERATING ASSETS

ACTION REQUIRED

Members are asked to:

- **Review the draft of the ED(s)** and approve for issuance or give directions for further development.

AGENDA MATERIAL

	Pages
14.2 Draft ED XX, "Impairment of Cash-Generating Assets"	14.5 – 14.76
14.3 Illustrative ED XX, "Impairment of Non Cash-Generating Assets and Cash-Generating Assets"	14.77 – 14.122

ED OF IPSAS XX, EMPLOYEE BENEFITS BASED ON IAS 19

At the Cape Town meeting members considered a stand-alone ED on Cash-Generating Assets and a draft of an integrated ED that combines requirements for the impairment of non-cash generating assets and the impairment of cash-generating assets. These draft EDs had been developed by a separate subcommittee comprising Ron Salole (Canada), Erna Swart (South Africa) and David Bean (USA).

Members directed that the project should be progressed on the basis that a stand-alone ED on the impairment of cash generating assets should be exposed for comment and that this should include in an appendix an explanation of how the requirements in the stand-alone new ED would relate to a combined ED. That combined ED would be made available on the IFAC website, but would not be issued in hard-copy. Members also directed that the "due process" should make it clear that the requirements of IPSAS 21 have not been re-opened for comment unless specifically identified. In this context the approach in the Improvements ED would be adopted with only paragraphs that are to be amended to be re-exposed.

Members also asked the subcommittee to:

- Further develop the relationship between cash-generating assets and cash generating units;
- Explain and further develop the definition and characteristics of a cash generating asset and include guidance on distinguishing cash-generating assets from non-cash generating assets;

- Add implementation guidance for those cash generating units that may include a non-cash generating asset and illustrate the allocation of any impairment loss across the assets encompassed by the CGU, including non-cash generating assets;
- Include the latest terminology for cross-referencing to an IFRS/IAS which the IPSASB has not yet reviewed for applicability to the public sector; and
- Include, in the basis for conclusions, the rationale for the departure from IAS 36 proposed in respect of the impairment of cash-generating assets that have been revalued, and amend the basis for conclusions in IPSAS 21 accordingly in respect of this matter.

Members of the subcommittee met in early February to further progress this project. The ED at Agenda Item 14.2 is a further version of a stand-alone ED based on IAS 36, which was on the agenda papers for the Cape Town meeting. It is presented in a marked-up version showing changes from the version presented at Cape Town. A clean version is available from staff on request. The mark-ups reflect modifications of the text of IAS 36. The combined ED is presented at item 14.3 in a clean version. A marked-up version of the combined ED showing the textual changes from IPSAS 21 is available from staff on request. It is intended to work through the marked up version of both EDs at the meeting. The ED references in the following analysis is to the stand-alone ED at Item 14.2.

(a) Relationship between cash-generating assets, non-cash generating assets and cash-generating units

Currently the ED requires at paragraph 96 an impairment loss for a cash-generating unit to be allocated, on a pro-rata basis based on the carrying amount of each asset in the unit, to all assets in the cash-generating unit. The ED does not therefore distinguish between cash-generating and non-cash generating assets within a cash-generating unit in allocating such impairment losses. The subcommittee concluded that this approach is practical and avoids unduly complex allocations. A specific matter for comment has been inserted on this issue.

Members are asked to agree this approach or provide alternative directions

(b) Definition and characteristics of cash generating assets and guidance on distinguishing cash-generating assets from non-cash generating assets

Additional commentary has been inserted at paragraph 17 and paragraphs 19-23 to enable users to identify cash-generating assets and to identify circumstances in which public sector entities may hold cash generating assets.

Paragraph 17 notes that “cash-generating assets are those that are held to generate a commercial return” and that an asset generates “a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity”. Paragraphs 21 and 22 highlight examples where an asset may generate cash-flows, but these cash-flows are either incidental or insignificant to the main activity. Paragraph 23 acknowledges that judgment is necessary to determine whether to apply the requirements of this Standard or IPSAS 21 and a disclosure is required at paragraph 115 of the criteria used to determine whether an asset is cash-generating or non-cash generating. Paragraph 23 concludes by noting that “given the overall objectives of public sector entities, the presumption would be that the assets are non-cash-generating and, therefore, would apply IPSAS 21.”

The subcommittee based the disclosure requirement of the criteria for determining whether an asset is cash-generating or non-cash generating from paragraph 75(a) of IPSAS 16, “Investment Property”, which requires disclosure of “the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations” when classification is difficult.

The subcommittee considered that the introduction of a rebuttable presumption is a practical approach where classification is difficult and in accordance with the main purposes for which most assets are held by public sector entities.

A Specific Matter for Comment has been included on whether the guidance on when an asset should be classified as cash-generating is clear and appropriate. Members are asked to agree the approaches in these paragraphs or provide alternative directions.

(c) Scope

The subcommittee noted that the scope of IAS 36 excludes deferred tax assets and assets arising from employee benefits. These areas are not excluded from IPSAS 21, on the basis that the exclusions relate to classes of assets which are the subject of specific impairment requirements under IFRSs for which there are no equivalent IPSASs.

The subcommittee seeks the views of members as to whether these areas should be within the scope of the ED on Impairment of Cash-Generating Assets and the combined ED.

(d) Intangible assets

The subcommittee noted that non-cash generating intangible assets are within the scope of IPSAS 21. However, the subcommittee has some concerns about the relationship between IPSAS 21 and the requirements relating to intangible assets in the stand-alone ED and that there is no guidance in IPSAS 21 on what constitutes a non-cash generating intangible asset.

The subcommittee seeks the views of members as to whether there should be further guidance on what constitutes a non-cash generating intangible asset.

(e) Definition of impairment

The combined ED includes a single definition of impairment that encompasses both cash-generating and non-cash generating assets.

The subcommittee seeks views of members as to whether this definition is appropriate or whether separate definitions should be developed for cash-generating and non-cash generating assets.

(f) Cross –referencing in IPSAS 21

Paragraph 63 of IPSAS 21 cross-refers to paragraph 72 and states that “Paragraph 72 requires an entity to identify the change in estimates that causes the increase in recoverable service amount”. The Subcommittee has concerns that paragraph 72 does not reflect this commentary sufficiently directly. Although paragraph 72(a) requires disclosure for each material impairment loss recognized or reversed during the period of “the events and circumstances that led to the recognition or reversal of the impairment loss” the subcommittee considers that it would be clearer if the same wording is used in both

paragraphs 63 and 72. Members are therefore asked to consider whether there should be an amendment of paragraph 72 in IPSAS 21.

(g) Rationale for the departure from IAS 36 proposed in respect of the impairment of assets carried on a revaluation model

In accordance with the direction at Cape Town the rationale for excluding assets that are carried on a revaluation model has been explained in paragraphs C8-C9. The approach in IPSAS 21 is noted. The rationale in IPSAS 21 is that assets under the allowed alternative treatment in IPSAS 17 will be revalued with sufficient regularity to ensure that they are carried at an amount not materially different from their fair value at the reporting date and that any impairment losses will be taken into account in the valuation. It is concluded that this rationale applies to cash generating assets. A Specific Matter for Comment has been included on this issue.

Members are asked to agree the rationale in the Basis for Conclusions or provide alternative directions.

(h) Specific Matters for Comment

As well as the issues identified above at (a) and (b), it is proposed to ask respondents whether they prefer a stand-alone ED addressing cash-generating assets or a combined ED non-cash generating asset.

Members are asked to consider whether there are further specific matters for comment which should be inserted.

Exposure Draft XX

xxxx2006

Comments are requested by xxxx, 2006

Impairment of Cash-Generating Assets



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, Impairment of Cash-generating Assets, for publication in xxxxx. This proposed International Public Sector Accounting Standard may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by xx_xx_xx. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director

International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: publicsectorpubs@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB 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 IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in 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 IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB 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. .

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, "Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities 2nd Edition".

This Exposure Draft proposes additional requirements for entities reporting under the cash basis of accounting.

Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in IPSAS 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 IPSASB will consider the comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Background

Public sector entities may have cash-generating assets that may become impaired. IPSAS 21 deals with the impairment of non-cash-generating assets. IPSASB decided that entities with cash-generating assets or with assets that shared characteristics of both cash generating and non-cash-generating assets needed guidance on how to recognize and measure losses arising from an impairment of such assets. This issue has not been addressed by International Public Sector Accounting Standards, and other international guidance does not address these issues from a public sector perspective.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the recognition, measurement and disclosure of impairment of cash-generating assets. As well, it provides guidance on dealing with assets that may have a combination of cash-generating and non-cash-generating characteristics.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by xx xx xx. The IPSASB 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 specific issues in the Exposure Draft. Respondents are also invited to address any or all of the specific matters for comment outlined below and to provide detailed comments on any other aspects of the Exposure Draft (including materials and examples contained in the implementation guidance) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comments on:

1. The proposal to **issue a stand-alone ED dealing with cash-generating assets. Can you indicate whether you support such an approach or would prefer a combined ED dealing with both cash-generating assets and non-cash generating assets. Please give your reasons.**

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2. Whether the guidance on identifying cash-generating assets is appropriate and clear. If you do not think that it is appropriate and clear please indicate how it should be modified.
3. Whether the requirement that an impairment loss for a cash-generating unit be allocated, on a pro-rata basis based on the carrying amount of each asset in the unit, to all assets in the cash-generating unit, including non-cash generating assets is appropriate. If you do not think that it is appropriate please indicate how impairment losses for cash-generating units that contain non-cash generating assets should be treated.
4. Whether assets carried on a revaluation model should be excluded from the scope of this ED. If you do not agree that assets carried on a revaluation model should be excluded from the scope please give your reasons.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

IMPAIRMENT OF CASH-GENERATING ASSETS

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IPSASB Tokyo, March 2006

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

IMPAIRMENT OF CASH-GENERTAING ASSETS

Objective

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

Scope

2. An entity which prepares and present financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:
 - (a) Inventories (see IPSAS 12 *Inventories*);
 - (b) Assets arising from construction contracts (see IPSAS 11 *Construction Contracts*);
 - ~~(c) Deferred tax assets (see IAS 12 *Income Taxes*);~~
 - ~~(d) Assets arising from employee benefits (see IAS 19 *Employee Benefits*);~~
 - ~~(ec)~~ Financial assets that are within the scope of IPSAS 15 *Financial Instruments: Disclosure and Presentation*;
 - ~~(fd)~~ Investment property that is measured at fair value (see IPSAS 16 *Investment Property*);
 - ~~(geh)~~ Cash-generating property, plant and equipment that is measured at revalued amounts (see IPSAS 17, *Property, Plant and Equipment*); and
 - ~~(hfi)~~ Other cash generating assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.
3. This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).
4. Public sector entities that hold non-cash generating assets as defined in paragraph 15 shall apply the International Public Sector Accounting Standard IPSAS 21, *Impairment of Non-Cash-Generating Assets* to such assets. Public sector entities that hold cash-generating assets shall apply the requirements of this Standard ~~to cash-generating assets~~.

5. For example, a waste disposal plant that has been established to assist with the safe disposal of medical waste generated by state controlled hospitals, hospitals may also treat medical waste generated by other private hospitals. Such additional disposal activities are incidental to the activities of the plant, and the assets that generate cash cannot be distinguished from the non-cash-generating assets. Accordingly, IPSAS 21 is applied to test for any asset impairment.
6. 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 IPSAS 21 to their non-cash-generating assets and apply this Standard to their cash-generating assets. Paragraphs 7 to 14 explain the scope of the Standard in greater detail.
7. This Standard includes cash-generating intangible assets within its scope. Entities apply the requirements of this Standard to recognizing and measuring impairment losses, and reversals of impairment losses, related to cash-generating intangible assets.
8. This Standard does not apply to inventories, and cash-generating assets arising from construction contracts, because existing Standards applicable to these assets contain requirements for recognizing and measuring these assets.
9. This Standard does not apply to any financial assets that are included in the scope of IPSAS 15, Financial Instruments: Presentation and Disclosure. Impairment of these assets will be dealt with in any International public sector accounting standard that the IPSASB develops on the basis of IAS 39, Financial Instruments: Recognition and Measurement to deal with the recognition and measurement of financial instruments.
10. This Standard does not require the application of an impairment test to an investment property that is carried at fair value in accordance with 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.
11. This Standard does not require the application of an impairment test to cash-generating assets that are carried at revalued amounts 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. The approach adopted in this Standard to measuring an asset’s recoverable service amount means that it is unlikely that the recoverable service amount of an asset will be

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materially less than an assets revalued amount and that any such differences would relate to the costs of disposal of the asset.

12. Consistent with the requirements of paragraph 4 above, items of property, plant and equipment that are classified as non-cash-generating assets including those that are carried at revalued amounts under the allowed alternative treatment in IPSAS 17, are dealt with under IPSAS 21.
13. Investments in:
 - (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 15. Where such investments are classified as ~~non~~-cash-generating assets, they are dealt with under this Standard. Where these assets are in the nature of non-cash-generating assets, they are dealt with under IPSAS 21.

14. The *Preface to International Financial Reporting Standards* as issued by the International Accounting Standards Board (IASB) explains that International Financial ~~R~~eporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are defined in paragraph 15 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs.

Definitions

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

An active market is a market in which 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.**

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses thereon.

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

A **cash-generating unit** is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

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

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.

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

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

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

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

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

Useful life is either:

- (a) ~~T~~**he** period of time over which an asset is expected to be used by the entity; or

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- (b) **The number of production or similar units expected to be obtained from the asset by the entity.**

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

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Government Business Enterprises

16. 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.

Cash-Generating Assets

17. ~~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 that adopted by a profit-oriented entity. Holding an asset to generate a “commercial return” indicates that an entity intends to generate positive cash inflows from the asset (or of the unit of which the asset is a part) and earn a return that reflects the risk involved in holding the asset. 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 (other than investment property held at fair value excluded from the scope of this standard) meets the definition of a cash-generating asset.~~
18. 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

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part) operates with the objective of generating a commercial rate of return through the provision of services to external parties.

19. There are a number of circumstances in which public sector entities may hold assets that generate a return. Cash-generating assets of a public sector entity generate cash flows may be largely independently of the other non-cash-generating assets of the entity. For example, the deeds office earns land registration fees, independently from the department of land affairs.
20. The production or supply of goods and services (or the use of a property for administrative purposes) can also generate cash flows. A building and the assets in the building ~~are~~^{is} held to facilitate the production of goods and services and the cash flows are attributable to the building and the assets used in the production or supply process. The principles in this standard are applied to these assets if the building is owner-occupied and carried at cost.
21. In certain instances, an asset may generate cash although its primary held for the purpose of service delivery. For example, a waste disposal plant has been established to assist with the safe disposal of medical waste generated by state controlled hospitals. The plan also treats medical waste generated by other private hospitals. This is incidental to the activities of the plant, and the assets that generate cash cannot be distinguished from the non-cash-generating assets.
22. In other instances, a portion of an asset may earn cash flows. For example, a public hospital has ten wards, nine of which are used for non-fee paying patients, and other is used for full-fee paying patients on a commercial basis. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The significance of the portion that provides a commercial return needs to be considered to determine whether the entity should apply the cash-generating or non-cash-generating provisions of this standard. If the cash-generating component is a relatively insignificant component of the arrangement as a whole, the entity applies IPSAS 21. ~~Public sector entities hold assets to meet service delivery objectives rather than to earn cash flows. In these instances, IPSAS 21 is applicable. In certain instances, a portion of the assets earn cash flows. For example, a hospital or a university may own equipment, part of which is used for service delivery purposes, and part of which is leased out on a commercial basis. The significance of the portion that provides a commercial return need to be considered to determine whether the entity should apply this standard or IPSAS 21. If the cash generating component is a relatively insignificant component of the arrangement as a whole, the entity applies IPSAS 21.~~
23. It may be difficult to determine whether the portion that generates cash flows ~~are~~^{is} so significant that this sStandard would be applicable. Judgment is needed to determine which sStandard to apply. An entity would develop criteria so that it can exercise that judgment consistently in accordance with

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the definition of cash-generating assets and non-cash-generating assets with the related guidance in paragraphs .17-.21. Paragraph .115 requires an entity to disclose these criteria ~~when classification is difficult~~. However, given the overall objectives of public sector entities, the presumption ~~would if in doubt should~~ be that the assets are non-cash-generating and, therefore, would apply IPSAS 21.

Depreciation

24. 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.

Impairment

25. 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 of a cash-generating asset, therefore, reflects a decline in the economic benefit ~~utility of~~ an asset to the entity that controls it. For example, an entity may have a municipal parking garage ~~purpose built military storage facility that it no longer uses that is currently being used at 25 percent of capacity. It was originally intended to generate a commercial rate of return at 75 percent of capacity~~. The asset is regarded as impaired because it is carrying amount exceeds its recoverable amount. ~~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.~~

Identifying an Asset that may be Impaired

- ~~Paragraphs xx xx. Paragraphs xx xx deal with the recognition and measurement of impairment losses for cash-generating units.~~
- ~~(c) paragraphs xx xx set out the requirements for reversing an impairment loss recognized in prior periods for an asset or a cash-generating unit. Again, these requirements also use the term ‘an asset’ but apply equally to an individual asset and a cash-generating unit. Additional requirements for an individual~~

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~~asset are set out in paragraphs xx–xx and for a cash-generating unit in paragraphs xx–xx.~~

- ~~(d) paragraphs xx–xx specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. Paragraphs xx specify additional disclosure requirements for cash-generating units to which intangible assets with indefinite useful lives have been allocated for impairment testing purposes.~~

26. An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs 30–34 describe some indications 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 amount. Except as described in paragraph 28, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present.
27. **An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.**
28. **Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its 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 intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.**
29. The ability of an intangible asset to generate sufficient future economic benefits 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.
30. **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **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.**

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- (b) **Significant 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, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.**
- (c) **Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.**

Internal sources of information

- (d) **Evidence is available of obsolescence or physical damage of an asset.**
 - (e) **Significant 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 the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.**
 - (f) **Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.**
31. The list in paragraph 30 is not exhaustive. An entity may identify other indications that an asset may be impaired and these would also require the entity to determine the asset's recoverable amount.
32. Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:
- (a) **Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;**
 - (b) **actual net cash flows or net surplus or deficit flowing from the asset that are significantly worse than those budgeted;**
 - (c) **Aa significant decline in budgeted net cash flows or surpluses or a significant increase in budgeted loss, flowing from the asset; or**
 - (d) **Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.**

33. As indicated in paragraph 28, this Standard requires an intangible asset with an indefinite useful life or not yet available for use to be tested for impairment, at least annually. Apart from when the requirements in paragraph 28 apply, the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 30.
34. As an illustration of paragraph 30, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:
- (a) ~~If~~ the discount rate used in calculating the asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for an asset that has a long remaining useful life.
 - (b) ~~if~~ If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates but previous sensitivity analysis of recoverable amount shows that:
 - (i) it is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (eg in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly exchange revenues) to compensate for any increase in market rates); or
 - (ii) the decrease in recoverable amount is unlikely to result in a material impairment loss.
35. 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 needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring Recoverable Amount

36. This Standard defines recoverable amount as the higher of an asset's fair value less costs to sell and its value in use. Paragraphs .38-.41 set out the requirements for measuring recoverable amount. These requirements use the

- term ‘an asset’ but apply equally to an individual asset or a cash-generating unit.
37. It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. 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.
 38. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. However, sometimes it will not be possible to determine 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 willing parties. In this case, the entity may use the asset's value in use as its recoverable amount.
 39. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. 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 the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.
 40. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 90-95), unless either:
 - (a) The asset's fair value less costs to sell is higher than its carrying amount; or
 - (b) The asset's value in use can be estimated to be close to its fair value less costs to sell and fair value less costs to sell can be determined.
 41. In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations for determining fair value less costs to sell or value in use.

Measuring the Recoverable Amount of an Intangible Asset with an Indefinite Useful Life

42. Paragraph 28 requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

- (a) ~~I~~f the intangible asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;
- (b) ~~T~~he most recent recoverable amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
- (c) ~~B~~ased on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the asset's carrying amount is remote.

Fair Value less Costs to Sell

- 43. The best evidence of an asset's 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.
- 44. If there is no binding sale agreement but an asset is traded in an active market, 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 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 as at which the estimate is made.
- 45. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the balance sheet date, from 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. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.
- 46. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining 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 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.

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47. Sometimes, the disposal of an asset would require the buyer to assume a liability and only a single fair value less costs to sell is available for both the asset and the liability. Paragraph 94 explains how to deal with such cases.

Value in Use

48. **The following elements shall be reflected in the calculation of an asset's value in use:**

- (a) ~~an~~**An** estimate of the future cash flows the entity expects to derive from the asset;
- (b) ~~expectations~~**Expectations** about possible variations in the amount or timing of those future cash flows;
- (c) ~~the~~**The** time value of money, represented by the current market risk-free rate of interest;
- (d) ~~the~~**The** price for bearing the uncertainty inherent in the asset; and
- (e) ~~other~~**Other** factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

49. Estimating the value in use of an asset involves the following steps:

- (a) ~~estimating~~**Estimating** the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- (b) ~~applying~~**Applying** the appropriate discount rate to those future cash flows.

50. The elements identified in paragraph 48(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, ie the weighted average of all possible outcomes. Appendix A provides additional guidance on the use of present value techniques in measuring an asset's value in use.

Basis for Estimates of Future Cash Flows

51. **In measuring value in use an entity shall:**

- (a) ~~base~~**Base** cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining

useful life of the asset. Greater weight shall be given to external evidence.

- (b) ~~base~~Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.
 - (c) ~~estimate~~Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.
52. Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.
 53. Detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.
 54. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.
 55. When conditions are favorable, competitors may enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products,

industries, or country or countries in which the entity operates, or for the market in which the asset is used.

56. In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

Composition of Estimates of Future Cash Flows

57. **Estimates of future cash flows shall include:**

- (a) ~~p~~**Projections of cash inflows from the continuing use of the asset;**
- (b) ~~P~~**rojections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and**
- (c) ~~N~~**et cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.**

58. Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).

59. Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.

60. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.

61. To avoid double-counting, estimates of future cash flows do not include:

- (a) ~~cash~~**Cash** inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and
- (b) ~~cash~~**Cash** outflows that relate to obligations that have been recognized as liabilities (for example, payables, pensions or provisions).

62. **Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:**
- (a) ~~a~~ **A future restructuring to which an entity is not yet committed; or**
 - (b) **I**~~future~~ **Improving or enhancing the asset's performance.**
63. Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:
- (a) ~~future~~ Future cash outflows or related cost savings (for example reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or
 - (b) ~~future~~ Future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.
64. A restructuring is a program that is planned and controlled by management and materially changes either the scope of the business undertaken by an entity or the manner in which the business is conducted. IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* contains guidance clarifying when an entity is committed to a restructuring.
65. When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:
- (a) ~~its~~ Its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and
 - (b) ~~its~~ Its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with IPSAS 19.
66. Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits associated with the cash outflow.
67. Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition. When a unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter

lives is considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.

68. Estimates of future cash flows shall not include:

- (a) ~~C~~ash inflows or outflows from financing activities; or
- (b) ~~I~~ncome tax receipts or payments.

69.4. Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, since the discount rate is determined on a pre-tax basis, future cash flows are also determined on a pre-tax basis.

70. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

71. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs to sell, except that, in estimating those net cash flows:

- (a) ~~an~~ An entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used.
- (b) ~~the~~ The entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

Foreign Currency Future Cash Flows

72. Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount Rate

73. The discount rate (rates) shall reflect(s) current market assessments of:

- (a) ~~T~~he time value of money; and

- (b) ~~¶~~**The risks specific to the asset for which the future cash flow estimates have not been adjusted.**
74. A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.
75. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. Appendix A provides additional guidance on estimating the discount rate in such circumstances.

Recognizing and Measuring an Impairment Loss

76. Paragraphs 77-80 set out the requirements for recognizing and measuring impairment losses for an individual asset. Recognizing and measuring impairment losses for cash-generating units are dealt with in paragraphs 81-98.
77. **If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.**
78. **An impairment loss shall be recognized immediately in net surplus or deficit**
79. **When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognize a liability if, and only if, that is required by another Standard.**
80. **After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

~~sed, any related deferred tax assets or liabilities are determined in accordance with the International Accounting Standard *Income Taxes*.~~

Cash-generating Units

81. Paragraphs 82-98 set out the requirements for identifying the cash-generating unit to which an asset belongs^s and determining the carrying amount of, and recognizing impairment losses for, cash-generating units.

Identifying the Cash-generating Unit to Which an Asset Belongs

82. If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).
83. The recoverable amount of an individual asset cannot be determined if:
- (a) The asset's value in use cannot be estimated to be close to its fair value less costs to sell (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and
 - (b) The asset does not generate cash inflows that are largely independent of those from other assets. In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

Example

A municipality runs a waste disposal entity that owns a crushing plant to support its waste disposal activities. The crushing plant could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the waste disposal entity.

It is not possible to estimate the recoverable amount of the crushing plant because its value in use cannot be determined and is probably different from scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the crushing plant belongs, ie the waste disposal entity as a whole.

84. As defined in paragraph 15, an asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgment. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

Example

A state bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit ~~for each route~~ is the bus company as a whole.

85. Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors including how management monitors the entity's operations (such as by product lines, businesses, individual locations, districts or regional areas) or how management makes decisions about continuing or disposing of the entity's assets and operations. Illustrative Example 1 gives examples of identification of a cash-generating unit.
86. **If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:**
 - (a) ~~the~~**The** future cash inflows used to determine the asset's or cash-generating unit's value in use; and
 - (b) ~~the~~**The** future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.
87. Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, or to any other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if

internal transfer prices do not reflect management's best estimate of future prices that could be achieved in arm's length transactions.

88. **Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.**
89. If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 122 requires disclosures about the cash-generating unit, if an impairment loss is ~~recognised~~recognized or reversed for the cash-generating unit.

Recoverable Amount and Carrying Amount of a Cash-generating Unit

90. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 36-80 to 'an asset' is read as a reference to 'a cash-generating unit'.
91. **The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.**
92. The carrying amount of a cash-generating unit:
 - (a) ~~includes~~Includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and
 - (b) ~~does~~Does not include the carrying amount of any ~~recognised~~recognized liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability. This is because fair value less costs to sell and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been ~~recognised~~recognized (see paragraphs 46 and 61).
93. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate or are used to generate the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred.
94. It may be necessary to consider some ~~recognised~~recognized liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the

liability. In this case, the fair value less costs to sell (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the estimated selling price for the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

Example

A municipality operates a waste disposal site and is required to restore the site on completion of its operations. The cost of restoration includes the replacement of the ~~top soil~~~~overburden~~, which must be removed before waste disposal operations commence. A provision for the costs to replace the ~~top soil~~~~overburden~~ was recognized as soon as the ~~top soil~~~~overburden~~ was removed. The amount provided was recognized as part of the cost of the site and is being depreciated over the site's useful life. The carrying amount of the provision for restoration costs is CU500,¹ which is equal to the present value of the restoration costs.

The municipality is testing the site for impairment. The cash-generating unit for the site is the site as a whole. The government has received various offers to buy the site at a price of around CU800. This price reflects the fact that the buyer will assume the obligation to restore the ~~overburden~~~~top soil~~. Disposal costs for the site are negligible. The value in use of the mine is approximately CU1,200, excluding restoration costs. The carrying amount of the ~~waste disposal site~~~~mine~~ is CU1,000.

The cash-generating unit's fair value less costs to sell is CU800. This amount considers restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs and is estimated to be CU700 (CU1,200 less CU500). The carrying amount of the cash-generating unit is CU500, which is the carrying amount of the site (CU1,000) less the carrying amount of the provision for restoration costs (CU500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

¹In this Standard, monetary amounts are denominated in 'currency units' (CU).

95. For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash-generating unit (for example, receivables or other financial assets) or liabilities that have been ~~recognised~~~~recognized~~ (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Impairment Loss for a Cash-generating Unit

96. An impairment loss shall be ~~recognised~~~~recognized~~ for a cash-generating unit if, and only if, its recoverable amount is less than the carrying amount. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit to the other assets of the unit on a pro

rata-basis based on the carrying amount of each asset in the unit. These reductions in carrying amounts shall be treated as impairment losses on individual assets and ~~recognised~~recognized in accordance with paragraph 78.

97. In allocating an impairment loss in accordance with paragraph 96, an entity shall not reduce the carrying amount of an asset below the highest of:

- (a) ~~Its~~ fair value less costs to sell (if determinable);
- (b) ~~Its~~ value in use (if determinable); and
- (c) ~~Z~~Zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).

98. If it is not practicable to estimate the recoverable amount of each individual asset of a cash-generating unit, this Standard requires an arbitrary allocation of an impairment loss between the assets of that unit, because all assets of a cash-generating unit work together.

99. If the recoverable amount of an individual asset cannot be determined (see paragraph 83):

- (a) ~~an~~An impairment loss is ~~recognised~~recognized for the asset if its carrying amount is greater than the higher of its fair value less costs to sell and the results of the allocation procedures described in paragraphs 96 and 97; and
- (b) ~~no~~No impairment loss is ~~recognised~~recognized for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs to sell is less than its carrying amount.

Example

A ~~holding tank-machine~~ at a water purification plant has suffered physical damage but is still working, although not as well as before it was damaged. The ~~holding tank-machine~~'s fair value less costs to sell is less than its carrying amount. The ~~holding tank-machine~~ does not generate independent cash inflows. The smallest identifiable group of assets that includes the ~~holding tank-machine~~ and generates cash inflows that are largely independent of the cash inflows from other assets is the plant to which the ~~holding tank-machine~~ belongs. The recoverable amount of the plant shows that the plant taken as a whole is not impaired.

Assumption 1: budgets/forecasts approved by management reflect no commitment of management to replace the ~~machine~~~~holding tank~~.

The recoverable amount of the ~~machine~~~~holding tank~~ alone cannot be estimated because the ~~machine~~~~holding tank~~'s value in use:

- (a) may differ from its fair value less costs to sell; and*
- (b) can be determined only for the cash-generating unit to which the ~~machine~~~~holding tank~~ belongs (the purification plant).*

The plant is not impaired. Therefore, no impairment loss is ~~recognised~~ for the ~~machine~~~~holding tank~~. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the ~~machine~~~~holding tank~~. Perhaps a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the ~~machine~~~~holding tank~~ or the pattern in which economic benefits are expected to be consumed by the entity.

Assumption 2: budgets/forecasts approved by management reflect a commitment of management to replace the ~~machine~~~~holding tank~~ and sell it in the near future. Cash flows from continuing use of the ~~machine~~~~holding tank~~ until its disposal are estimated to be negligible.

The ~~machine~~~~holding tank~~'s value in use can be estimated to be close to its fair value less costs to sell. Therefore, the recoverable amount of the ~~machine~~~~holding tank~~ can be determined and no consideration is given to the cash-generating unit to which the ~~machine~~~~holding tank~~ belongs (ie the production line). Because the ~~machine~~~~holding tank~~'s fair value less costs to sell is less than its carrying amount, an impairment loss is ~~recognised~~ for the ~~machine~~~~holding tank~~.

- 100. After the requirements in paragraphs 96 and 97 have been applied, a liability shall be ~~recognised~~recognized for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another Standard.**

Reversing an Impairment Loss

101. Paragraphs 102-108 set out the requirements for reversing an impairment loss recognised for an asset or a cash-generating unit in prior periods. These requirements use the term ‘an asset’ but apply equally to an individual asset or a cash generating unit. Additional requirements for an individual asset are set out in paragraphs 109-112 and for a cash-generating unit in paragraphs 113 and 114.
102. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.**
103. **In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **the asset's market value has increased significantly during the period.**
- (b) **significant 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, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.**
- (c) **market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.**

Internal sources of information

- (d) **significant 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 costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs.**
- (e) **evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.**

104. Indications of a potential decrease in an impairment loss in paragraph 103 mainly mirror the indications of a potential impairment loss in paragraph 30.
105. 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 Standard applicable to the asset, even if no impairment loss is reversed for the asset.
106. **An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, ~~except as described in paragraph 107,~~ be increased to its recoverable amount. That increase is a reversal of an impairment loss.**
107. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. ~~Paragraph 118 requires a~~An entity is required to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:
- (a) a change in the basis for recoverable amount (ie whether recoverable amount is based on fair value less costs to sell or value in use);
 - (b) if recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows or in the discount rate; or
 - (c) if recoverable amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.
108. An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the 'unwinding' of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an Impairment Loss for an Individual Asset

109. **The increased carrying amount of an asset attributable to a reversal of an impairment loss 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.**
110. Any increase in the carrying amount of an asset above the carrying amount that would have been determined (net of amortization or depreciation) had no

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impairment loss been recognized for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the Standard applicable to the asset.

111. A reversal of an impairment loss for an asset shall be recognized immediately in net surplus or deficit, ~~unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in IPSAS 17 Property, Plant and Equipment). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.~~ ~~—————A reversal of an impairment loss on a revalued asset is credited directly to net assets under the heading revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognized in net surplus or deficit, a reversal of that impairment loss is also recognized in net surplus or deficit.~~
112. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversing an Impairment Loss for a Cash-generating Unit

113. A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and ~~recognised~~recognized in accordance with paragraph 111.
114. In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 113, the carrying amount of an asset shall not be increased above the lower of:
 - (a) ~~its~~Its recoverable amount (if determinable); and
 - (b) ~~the~~The carrying amount that would have been determined (net of ~~amortisation~~amortization or depreciation) had no impairment loss been ~~recognised~~recognized for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit.

Redesignation of Assets

- 115. The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets shall only occur 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 arises from, as a minimum, the listed indications applicable to the asset after redesignation.**
- 116. There are a number of circumstances in which public sector entities may hold assets that do not generate a return. The assets are held for service delivery purposes and not for their cash generating potential. In these instances the principles in IPSAS 21 should be applied to determine whether or not these assets are impaired. For example, an effluent treatment plant has been constructed to service a residential area. At present, excess capacity is used to treat industrial effluent at commercial rates, but it is envisaged that in five year's time it will no longer have any excess capacity. In this instance, IPSAS 21 is applied to determine any impairment, and the temporary cash generating capacity is disregarded.**

Disclosure

- 117. An entity should disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.**
- 118. An entity shall disclose the following for each class of assets:**
- (a) ~~the~~The amount of impairment losses recognized in net surplus or deficit during the period and the line item(s) of the income statement in which those impairment losses are included.**
 - (b) ~~the~~The amount of reversals of impairment losses recognized in net surplus or deficit during the period and the line item(s) of the income statement in which those impairment losses are reversed.**
 - (c) ~~the~~The amount of impairment losses on revalued assets recognized directly in equity during the period.**
 - (d) ~~the~~The amount of reversals of impairment losses on revalued assets recognized directly in equity during the period.**

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119. A class of assets is a grouping of assets of similar nature and use in an entity's operations.
120. The information required in paragraph 118 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 by IPSAS 17 *Property, Plant and Equipment*.
121. **An entity that reports segment information in accordance with IPSAS 18 Segment Reporting shall disclose the following for each reportable segment based on an entity's primary reporting format:**
- (a) **The amount of impairment losses recognized in net surplus or deficit and directly in equity during the period.**
 - (b) **~~the~~The amount of reversals of impairment losses recognized in net surplus or deficit and directly in equity during the period.**
122. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period for an asset or a cash-generating unit:**
- (a) **~~the~~The events and circumstances that led to the recognition or reversal of the impairment loss.**
 - (b) **~~the~~The amount of the impairment loss recognized or reversed.**
 - (c) **~~for~~For an asset:**
 - (i) the nature of the asset; and
 - (ii) if the entity reports segment information in accordance with IPSAS 18, the reportable segment to which the asset belongs, based on the entity's primary reporting format.
 - (e) **~~whether~~Whether the recoverable amount of the asset is its fair value less costs to sell or its value in use.**
 - (f) **~~if~~If recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).**
 - (g) **~~if~~If recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.**
123. **An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognisedrecognized during the period for which no information is disclosed in accordance with paragraph 118:**

- (a) ~~the~~**The** main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.
 - (b) ~~the~~**The** main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.
124. An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets during the period. However, paragraph 124 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-generating Units Containing Intangible Assets with Indefinite Useful Lives

- 1254.** An entity shall disclose the information required by (a)-(e) for each cash-generating unit for which the carrying amount of intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of ~~—~~intangible assets with indefinite useful lives:
- (a) ~~the~~**The** carrying amount of intangible assets with indefinite useful lives allocated to the unit.
 - (b) ~~the~~**The** basis on which the unit's recoverable amount has been determined (~~ii.e.~~ value in use or fair value less costs to sell).
 - (c) ~~if~~**If** the unit's recoverable amount is based on value in use:
 - (i) a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's recoverable amount is most sensitive.
 - (ii) a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
 - (iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-

generating unit, an explanation of why that longer period is justified.

- (iv) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit is dedicated.
- (v) the discount rate(s) applied to the cash flow projections.
- (d) ~~if~~If the unit's recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit, the following information shall also be disclosed:
 - (i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's recoverable amount is most sensitive.
 - (ii) a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
- (e) ~~if~~If a reasonably possible change in a key assumption on which management has based its determination of the unit's recoverable amount would cause the unit's carrying amount to exceed its recoverable amount:
 - (i) the amount by which the unit's recoverable amount exceeds its carrying amount.
 - (ii) the value assigned to the key assumption.
 - (iii) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's recoverable amount to be equal to its carrying amount.

126. If some or all of the carrying amount of intangible assets with indefinite useful lives is allocated across multiple cash-generating units, and the amount so allocated to each unit is not significant in comparison with the entity's total carrying amount of intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units. In addition, if the recoverable amounts of any of those units are based on the same key assumption(s) and the aggregate carrying amount of intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

- (a) ~~the~~The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units.**
- (b) ~~a~~A description of the key assumption(s).**
- (c) ~~a~~A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**
- (e) ~~if~~If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' carrying amounts to exceed the aggregate of their recoverable amounts:**
 - (i) the amount by which the aggregate of the units' recoverable amounts exceeds the aggregate of their carrying amounts.**
 - (ii) the value(s) assigned to the key assumption(s).**
 - (iii) the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' recoverable amounts to be equal to the aggregate of their carrying amounts.**

127. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit may, in accordance with paragraph 42, be carried forward and used in the impairment test for that unit in the current period provided specified criteria are met. When this is the case, the information for that unit that is incorporated into the disclosures required

by paragraphs 124 and 125 relate to the carried forward calculation of recoverable amount.

Effective Date

- 127 **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after Month XX, Year. Earlier application is encouraged. If an entity applies this Standard for an earlier period it shall disclose that fact.**
- 128 **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.**

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- ~~Identification changes from IASs to the applicable IPSASs have been made.~~

~~The topics of goodwill, minority interest, and corporate assets have of “cash generating units” has been excludeddeleted from the IPSAS~~

- ~~Additional commentary has been added to differentiate cash generating from non-cash generating assets but “intangible assets” have been retained.~~

- ~~Market capitalization as an indicator to assess whether an asset may be impaired has been deleted from the IPSAS.~~

~~Guidance for redesignation of assets from cash generating to non-cash generating and non-cash generating to cash generating has been provided.~~

- ~~IPSAS 22 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 22. The equivalent terms in IAS 36 are “enterprise,” “income,” “recoverable amount,” “income statement” and “balance sheet.”~~

- ~~IPSAS 22 contains many of the definitions of technical terms used in IAS 36 and an additional glossary of other defined terms.~~

Appendix A**Using Present Value Techniques to Measure Value in Use**

This appendix is an integral part of the Standard. It provides guidance on the use of present value techniques in measuring value in use. Although the guidance uses the term 'asset', it equally applies to a group of assets forming a cash-generating unit.

The Components of a Present Value Measurement

A1. The following elements together capture the economic differences between assets:

- (a) an estimate of the future cash flow, or in more complex cases, series of future cash flows the entity expects to derive from the asset;
- (b) expectations about possible variations in the amount or timing of those cash flows;
- (c) the time value of money, represented by the current market risk-free rate of interest;
- (d) the price for bearing the uncertainty inherent in the asset; and
- (e) other, sometimes unidentifiable, factors (such as illiquidity) that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

A2. This appendix contrasts two approaches to computing present value, either of which may be used to estimate the value in use of an asset, depending on the circumstances. Under the 'traditional' approach, adjustments for factors (b)-(e) described in paragraph A1 are embedded in the discount rate. Under the 'expected cash flow' approach, factors (b), (d) and (e) cause adjustments in arriving at risk-adjusted expected cash flows. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result should be to reflect the expected present value of the future cash flows, ie the weighted average of all possible outcomes.

General Principles

A3. The techniques used to estimate future cash flows and interest rates will vary from one situation to another depending on the circumstances surrounding the asset in question. However, the following general principles govern any application of present value techniques in measuring assets:

- (a) interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions will be double-counted or ignored. For example, a discount rate of 12 per cent might be applied to contractual cash flows of a loan receivable. That

rate reflects expectations about future defaults from loans with particular characteristics. That same 12 per cent rate should not be used to discount expected cash flows because those cash flows already reflect assumptions about future defaults.

(b) estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question. For example, deliberately understating estimated net cash flows to enhance the apparent future profitability of an asset introduces a bias into the measurement.

(c) estimated cash flows or discount rates should reflect the range of possible outcomes rather than a single most likely, minimum or maximum possible amount.

Traditional and Expected Cash Flow Approaches to Present Value

Traditional Approach

- A4. Accounting applications of present value have traditionally used a single set of estimated cash flows and a single discount rate, often described as 'the rate commensurate with the risk'. In effect, the traditional approach assumes that a single discount rate convention can incorporate all the expectations about the future cash flows and the appropriate risk premium. Therefore, the traditional approach places most of the emphasis on selection of the discount rate.
- A5. In some circumstances, such as those in which comparable assets can be observed in the marketplace, a traditional approach is relatively easy to apply. For assets with contractual cash flows, it is consistent with the manner in which marketplace participants describe assets, as in 'a 12 per cent bond'.
- A6. However, the traditional approach may not appropriately address some complex measurement problems, such as the measurement of non-financial assets for which no market for the item or a comparable item exists. A proper search for 'the rate commensurate with the risk' requires analysis of at least two items—an asset that exists in the marketplace and has an observed interest rate and the asset being measured. The appropriate discount rate for the cash flows being measured must be inferred from the observable rate of interest in that other asset. To draw that inference, the characteristics of the other asset's cash flows must be similar to those of the asset being measured. Therefore, the measurer must do the following:
 - (a) identify the set of cash flows that will be discounted;
 - (b) identify another asset in the marketplace that appears to have similar cash flow characteristics;

- (c) compare the cash flow sets from the two items to ensure that they are similar (for example, are both sets contractual cash flows, or is one contractual and the other an estimated cash flow?);
- (d) evaluate whether there is an element in one item that is not present in the other (for example, is one less liquid than the other?); and
- (e) evaluate whether both sets of cash flows are likely to behave (ie vary) in a similar fashion in changing economic conditions.

Expected Cash Flow Approach

- A7. The expected cash flow approach is, in some situations, a more effective measurement tool than the traditional approach. In developing a measurement, the expected cash flow approach uses all expectations about possible cash flows instead of the single most likely cash flow. For example, a cash flow might be CU100, CU200 or CU300 with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively. The expected cash flow is CU220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.
- A8. The expected cash flow approach also allows use of present value techniques when the timing of cash flows is uncertain. For example, a cash flow of CU1,000 may be received in one year, two years or three years with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively. The example below shows the computation of expected present value in that situation.

Present value of CU1,000 in 1 year at 5%	CU952.38	
Probability	10.00%	CU95.24
Present value of CU1,000 in 2 years at 5.25%	CU902.73	
Probability	60.00%	CU541.64
Present value of CU1,000 in 3 years at 5.50%	CU851.61	
Probability	30.00%	CU255.48
Expected present value		CU892.36

- A9. The expected present value of CU892.36 differs from the traditional notion of a best estimate of CU902.73 (the 60 per cent probability). A traditional present value computation applied to this example requires a decision about which of the possible timings of cash flows to use and, accordingly, would not

reflect the probabilities of other timings. This is because the discount rate in a traditional present value computation cannot reflect uncertainties in timing.

- A10. The use of probabilities is an essential element of the expected cash flow approach. Some question whether assigning probabilities to highly subjective estimates suggests greater precision than, in fact, exists. However, the proper application of the traditional approach (as described in paragraph A6) requires the same estimates and subjectivity without providing the computational transparency of the expected cash flow approach.
- A11. Many estimates developed in current practice already incorporate the elements of expected cash flows informally. In addition, accountants often face the need to measure an asset using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:
- (a) the estimated amount falls somewhere between CU50 and CU250, but no amount in the range is more likely than any other amount. Based on that limited information, the estimated expected cash flow is CU150 $[(50 + 250)/2]$.
 - (b) the estimated amount falls somewhere between CU50 and CU250, and the most likely amount is CU100. However, the probabilities attached to each amount are unknown. Based on that limited information, the estimated expected cash flow is CU133.33 $[(50 + 100 + 250)/3]$.
 - (c) the estimated amount will be CU50 (10 per cent probability), CU250 (30 per cent probability), or CU100 (60 per cent probability). Based on that limited information, the estimated expected cash flow is CU140 $[(50 \times 0.10) + (250 \times 0.30) + (100 \times 0.60)]$. In each case, the estimated expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely or maximum amount taken alone.
- A12. The application of an expected cash flow approach is subject to a cost-benefit constraint. In some cases, an entity may have access to extensive data and may be able to develop many cash flow scenarios. In other cases, an entity may not be able to develop more than general statements about the variability of cash flows without incurring substantial cost. The entity needs to balance the cost of obtaining additional information against the additional reliability that information will bring to the measurement.
- A13. Some maintain that expected cash flow techniques are inappropriate for measuring a single item or an item with a limited number of possible outcomes. They offer an example of an asset with two possible outcomes: a 90 per cent probability that the cash flow will be CU10 and a 10 per cent probability that the cash flow will be CU1,000. They observe that the

expected cash flow in that example is CU109 and ~~criticise~~criticize that result as not representing either of the amounts that may ultimately be paid.

- A14. Assertions like the one just outlined reflect underlying disagreement with the measurement objective. If the objective is accumulation of costs to be incurred, expected cash flows may not produce a representationally faithful estimate of the expected cost. However, this Standard is concerned with measuring the recoverable amount of an asset. The recoverable amount of the asset in this example is not likely to be CU10, even though that is the most likely cash flow. This is because a measurement of CU10 does not incorporate the uncertainty of the cash flow in the measurement of the asset. Instead, the uncertain cash flow is presented as if it were a certain cash flow. No rational entity would sell an asset with these characteristics for CU10.

Discount Rate

- A15. Whichever approach an entity adopts for measuring the value in use of an asset, interest rates used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted. Otherwise, the effect of some assumptions will be double-counted.
- A16. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The purpose is to estimate, as far as possible, a market assessment of:
- (a) the time value of money for the periods until the end of the asset's useful life; and
 - (b) factors (b), (d) and (e) described in paragraph A1, to the extent those factors have not caused adjustments in arriving at estimated cash flows.
- A17. As a starting point in making such an estimate, the entity might take into account the following rates:
- (a) the entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;
 - (b) the entity's incremental borrowing rate; and
 - (c) other market borrowing rates.
- A18. However, these rates must be adjusted:
- (a) to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and
 - (b) to exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted. Consideration should be given to risks such as country risk, currency risk and price risk.

- A19. The discount rate is independent of the entity's capital structure and the way the entity financed the purchase of the asset, because the future cash flows expected to arise from an asset do not depend on the way in which the entity financed the purchase of the asset.
- A20. Paragraph 55 requires the discount rate used to be a pre-tax rate. Therefore, when the basis used to estimate the discount rate is post-tax, that basis is adjusted to reflect a pre-tax rate.
- A21. An entity normally uses a single discount rate for the estimate of an asset's value in use. However, an entity uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Appendix B**Amendments to Other IPSASs**

IPSAS 21, “Impairment of Non-Cash-Generating Assets” is amended as follows:

B1 Paragraph 4 is amended:

- 4. Public sector entities that hold cash-generating assets as defined in paragraph 14 shall apply International Public Sector Accounting Standard IAS 36 International Public Sector Accounting Standard IPSAS 22, “Impairment of Cash-Generating Assets” to such assets. Public sector entities that hold non-cash-generating assets shall apply the requirements of this Standard.**

B2 The following paragraphs are added:

- 4A. For example, a waste disposal plant has been established to assist with the safe disposal of medical waste generated by state controlled hospitals may also treat medical waste generated by other private hospitals. Such additional activities are incidental to the activities of the plant, and the assets that generate cash cannot be distinguished from the non-cash-generating assets. This Standard is applied to test for any impairment.**
- 18A. There are a number of circumstances in which public sector entities may hold assets that generate a return. Cash-generating assets of a public sector entity generate cash flows may be largely independently of the other non-cash-generating assets of the entity. For example, the deeds office earns land registration fees, independently from the department of land affairs.
- 18B. The production or supply of goods and services (or the use of a property for administrative purposes) can also generate cash flows. A building and the assets in the building are held to facilitate the production of goods and services and the cash flows are attributable to the building and the assets used in the production or supply process. The principles in the Standard on Impairment of Cash-Generating Assets are applied to these assets if the building is owner-occupied and carried at cost.

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- 18C. In certain instances, an asset may generate cash although its primary held for the purpose of service delivery. For example, a waste disposal plant has been established to assist with the safe disposal of medical waste generated by state controlled hospitals. The plan also treats medical waste generated by other private hospitals. This is incidental to the activities of the plant, and the assets that generate cash cannot be distinguished from the non-cash-generating assets.
- 18D. In other instances, a portion of an asset may earn cash flows. For example, a public hospital has ten wards, nine of which are used for non-fee paying patients, and other is used for full-fee paying patients on a commercial basis. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The significance of the portion that provides a commercial return needs to be considered to determine whether the entity should apply the cash-generating or non-cash-generating provisions of this standard. If the cash-generating component is a relatively insignificant component of the arrangement as a whole, the entity applies this Standard.
- 18E. It may be difficult to determine whether the portion that generates cash flows is so significant that this Standard would be applicable. Judgment is needed to determine which Standard to apply. An entity would develop criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets with the related guidance in paragraphs .17-18D. Paragraph .123 requires an entity to disclose these criteria. However, given the overall objectives of public sector entities, the presumption would be that the assets are non-cash-generating and, therefore, would apply this Standard.

B3 Paragraph 67 is replaced by the following paragraph:

- 67. The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets shall only occur 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 arises from, as a minimum, the listed indications applicable to the asset after redesignation.**

B4 The following paragraph is added:

- 67A. There are a number of circumstances in which public sector entities may hold assets that do not generate a return. The assets are held for service delivery purposes and not for their cash generating potential. In these instances the principles in this Standard should be applied to determine whether or not these assets are impaired. For example, an effluent treatment plant has been constructed to service a residential area. At present, excess capacity is used to

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treat industrial effluent at commercial rates, but it is envisaged that in five year's time it will no longer have any excess capacity. In this instance, this Standard is applied to determine any impairment, and the temporary cash generating capacity is disregarded.

Appendix C**ACCESSING AN ILLUSTRATIVE COMBINED EXPOSURE
DEALING WITH BOTH CASH-GENERATING AND
NON-CASH GENERATING ASSETS**

This Exposure Draft (ED) proposes requirements for a stand-alone International Public Sector Accounting Standard, which deals with cash-generating assets. The IPSASB has also developed an example of the main text of an ED combining the requirements of this stand-alone ED and IPSAS 21, “Impairment of Cash-Generating Assets”. This combined ED, which is for illustrative purposes only, is available at www.ifac.org/PublicSector

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Illustrative Examples

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~~B--Building~~ half-rented to others and half-occupied for own use

EXAMPLE 2 – CALCULATION OF VALUE IN USE AND RECOGNITION OF AN IMPAIRMENT LOSS

EXAMPLE 3 – REVERSAL OF AN IMPAIRMENT LOSS

Illustrative Examples

These examples accompany, but are not part of, IPSAS 22. All the examples assume that the entities concerned have no transactions other than those described. In the examples monetary amounts are denominated in 'currency units' (CU).

Most assets held by public sector entities are non-cash generating assets and accounting for their impairment should be undertaken in accordance with IPSAS 21.

In those rare circumstances when an asset held by a government ~~on~~ one of its agencies is considered to be cash generating the provisions of this IPSAS should be followed. Most cash-generating assets will arise in business activities run by government agencies that do not meet the definition of a Government Business Enterprise. For example, an entity would fail the definition if it is unable to contract in its own name.

For the purposes of these illustrative examples, a public sector entity is presumed to have commercial activities undertaken but that ~~it~~ the public sector entity is not a Government Business Enterprise.

Example 1 - Identification of Cash-generating Units

The purpose of this example is: (a) to indicate how cash-generating units are identified in various situations; and (b) to highlight certain factors that an entity may consider in identifying the cash-generating unit to which an asset belongs.

A – Reduction in Demand Related to a Single-Product Unit **~~Plant for an Intermediate Step in a Production Process~~**

Background

IE1. A government has a electric-generating utility that is not a legally-separate entity and therefore is not a GBE. The utility has two turbine generators in a single electric plant.

In the current period a major manufacturing plant in the area closed and demand for power was significantly reduced. In response, the government shut-down one of the generators.

What is the cash-generating unit? A significant raw material used for plant Y's final production is an intermediate product bought from plant X of the same entity. X's products are sold to Y at a transfer price that passes all margins to X. Eighty per cent of Y's final production is sold to customers outside of the entity. Sixty per cent of X's final production is sold to Y and the remaining 40 per cent is sold to customers outside of the entity. For each of the following cases, what are the cash-generating units for X and Y? Case 1: X could sell the products it sells to Y in an active market. Internal transfer prices are higher than market prices. Case 2: There is no active market for the products X sells to Y.

Analysis

~~Case 1~~

- ~~IE2. X could sell its products in an active market and, so, generate cash inflows that would be largely independent of the cash inflows from Y. Therefore, it is likely that X is a separate cash-generating unit, although part of its production is used by Y (see paragraph 70 of IAS 36). The individual turbine generators do not generate cash flows in and of themselves; therefore, the cash-generating unit to be used in determining an impairment is the electric plant as a whole.~~
- ~~IE3. It is likely that Y is also a separate cash-generating unit. Y sells 80 per cent of its products to customers outside of the entity. Therefore, its cash inflows can be regarded as largely independent.~~
- ~~IE4. Internal transfer prices do not reflect market prices for X's output. Therefore, in determining value in use of both X and Y, the entity adjusts financial budgets/forecasts to reflect management's best estimate of future prices that could be achieved in arm's length transactions for those of X's products that are used internally (see paragraph 70 of IAS 36).~~

~~Case 2~~

~~IE5. It is likely that the recoverable amount of each plant cannot be assessed independently of the recoverable amount of the other plant because:~~

~~— (a) the majority of X's production is used internally and could not be sold in an active market. So, cash inflows of X depend on demand for Y's products. Therefore, X cannot be considered to generate cash inflows that are largely independent of those of Y.~~

~~— (b) the two plants are managed together.~~

~~IE6. As a consequence, it is likely that X and Y together are the smallest group of assets that generates cash inflows that are largely independent.~~

B - Building Half-Rented to Others and Half-Occupied for Own

Use Background

IE7. M is the printing arm of a government entity. It owns a building that used to be fully occupied for internal use. After down-sizing, half of the building is now used internally and half rented to third parties. The lease agreement with the tenant is for five years. What is the cash-generating unit of the building?

Analysis

IE8. The primary purpose of the building is to serve as a government asset, supporting M's printing activities. Therefore, the building as a whole cannot be considered to generate cash inflows that are largely independent of the cash inflows from the entity as a whole. So, it is likely that the cash-generating unit for the building is M as a whole.

IE9. The building is not held as an investment. Therefore, it would not be appropriate to determine the value in use of the building based on projections of future market related rents.

Example 2 - Calculation of Value in Use and Recognition of an Impairment Loss

Background and Calculation of Value in Use

- IE10. At the beginning of 20X0, government R, through its department of power, puts into service a power plant that it constructed for CU250 million.
- IE11. At the beginning of 20X4, power plants constructed by competitors are put into service resulting in a reduction in the revenues produced by the power plant of government R. Reductions in revenue result because of the volume of electricity generated has decreased from expectations and because the price for electricity and for standby capacity have decreased from expectations..
- IE12. The reduction in revenue is evidence that the economic performance of the asset is worse than expected. Consequently, government R is required to determine the asset's recoverable amount.
- IE13. R uses straight-line depreciation over a 20-year life for the power plant and anticipates no residual value.
- IE14. To determine the value in use for the power plant (see Schedule 1), R:
- (a) prepares cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (years 20X5-20X9) approved by management.
 - (b) estimates subsequent cash flows (years 20Y0-20Y9) based on declining growth rates ranging from -6 per cent to -3 per cent.
 - (c) selects a 6 per cent discount rate, which represents a rate that reflects current market assessments of the time value of money and the risks specific to government R's power plant.

Recognition and Measurement of Impairment Loss

- IE15. The recoverable amount of government R's power plant is CU121.1 million.

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- IE16. R compares the recoverable amount of the power plant to its carrying amount (see Schedule 2).
- IE17. Because the carrying amount exceeds the recoverable amount by CU78.9 million, ~~Rrecognizes~~Recognizes an impairment loss of CU78.9 immediately in profit or loss.

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Schedule 1. Calculation of the value in use of government R's power plant at the end of 20X4

<i>Year</i>	<i>Long-term growth rates</i>	<i>Future cash flows</i>	<i>Present value factor at 15% discount rate§</i>	<i>Discounted future cash flows CU</i>
20X5 (n=1)		16.8 *	0.94340	15.8
20X6		14.4 *	0.89000	12.8
20X7		14.2 *	0.83962	11.9
20X8		14.1 *	0.79209	11.2
20X9		13.9 *	0.74726	10.4
20Y0	-6%	13.1 †	0.70496	9.2
20Y1	-6%	12.3 †	0.66506	8.2
20Y2	-6%	11.6 †	0.62741	7.3
20Y3	-5%	11.0 †	0.59190	6.5
20Y4	-5%	10.5 †	0.55839	5.9
20Y5	-5%	10.0 †	0.52679	5.3
20Y6	-4%	9.6 †	0.49697	4.8
20Y7	-4%	9.2 †	0.46884	4.3
20Y8	-3%	8.9 †	0.44230	3.9
20Y9	-3%	8.6 †	0.41727	3.6
Value in use				121.1

* Based on management's best estimate of net cash flow projections.

† Based on an extrapolation from preceding year cash flow using declining growth rates.

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§ The present value factor is calculated as $k = 1/1(+a)^n$, where a=discount rate and n= period discount.

Schedule 2. Calculation of the impairment loss for government R's power plant at the beginning of 20X5

Beginning of 20X5

	<i>Total CU</i>
Historical cost	250
Accumulated depreciation (20X4)	(50)
Carrying amount	200
Impairment loss	(78.9)
Carrying amount after impairment loss	121.1

Example 3 - Reversal of an Impairment Loss

Use the data for Government R as presented in Example 2, with supplementary information as provided in this example. In this example, tax effects are ignored.

Background

- IE18. In 20X6, government R is still in office, but the demand for power is improving. The effects of power plant closures by competitors resulted in an increase in the revenues produced by the power plant of Government R and prove to be more drastic than initially expected by Government R. As a result, Government R estimates that production will increase by 30 per cent. This ~~favourable~~favorable change requires the government to reestimate the recoverable amount of the power plant. (see paragraphs XX and XX of IPSAS XX).
- IE19. Calculations similar to those in Example 2 show that the recoverable amount of the power plant is now CU157.7.

Reversal of Impairment Loss_____

- IE20. The government compares the recoverable amount and the net carrying amount of the power plant.

Basis for Conclusions

This appendix gives the International Public Sector Accounting Standards Board's (IPSASB's) reasons for supporting or rejecting certain solutions related to the accounting for cash-generating impairment of assets. It also identifies circumstances in which the requirements of this proposed IPSAS depart from the requirements of IAS 36 and the reasons for such departure. This appendix does not form part of the Standard.

Introduction

C1. The International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 21 “Impairment of Non-Cash Generating Assets: in December 2004. IPSAS 21 prescribes the procedures that an entity applies to determine whether a non-cash generating asset is impaired and establishes how the impairment is measured and recognized. The majority of assets in the public sector are non-cash generating and the recognition and measurement standards developed resulted in a number of differences from International Accounting Standard IAS 36, “Impairment of Assets”.

Objective of standard

C2. The underlying objectives of both impairment standards are identical – to determine whether assets are impaired and when

they are to measure and recognize the impairment loss. The primary differences are that the standards dealing with non-cash generating assets provide acceptable alternatives to the calculation of the fair value and value in use of non-cash generating assets.

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Need for this IPSAS

C3. IPSAS 21 refers readers to IAS 36 when faced with having to establish whether cash-generating assets have been impaired and to follow that standard when measuring and recognizing any impairment. IPASPB acknowledged at the time that IPSAS 21 was issued that it would prefer to incorporate standards and guidance on impairment of cash-generating assets in a future IPSAS for the following reasons:

- (a) Public Sector entities should not be required to obtain a copy of IAS 36 to find the standards and guidance needed when an entity has cash-generating assets. IPSASB would prefer to have a self-contained body of accounting standards and guidance within IPSASs that provided comprehensive guidance for public sector entities.
- (b) Public Sector entities should be not be required to interpret the standards and guidance written for

commercial enterprises. IPSASB would prefer that public sector standards, written using terminology and examples that are familiar in a public sector context, be developed.

- (c) IPSASB would prefer to review and approve any accounting standard applicable to public sector entities after subjecting it to its own due process.

C4. This Exposure Draft was developed to provide public sector entities with the opportunity to review and comment on proposed standards dealing with the impairment of cash-generating assets in the context of public sector entities. It is intended to complement IPSAS 21. A question that IPSASB has posed to respondents is whether the Exposure Draft should give rise to a separate IPSAS or whether the provisions of the Exposure Draft should be integrated in a revised IPSAS 21. Such an approach has been included in the exposure draft to illustrate how the integration could be made. A decision on this issue will be made after responses are studied.

C5. As in IAS 36, this exposure draft would require an entity to determine value in use as the present value of estimated future cash flows expected to 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.

Scope

C6. The scope exclusions are narrower than IAS 36 in the areas of biological assets, deferred acquisition assets and intangible assets that arising from insurance contracts and non-current assets classified as held for sale on grounds that there are no specific public sector standards on these issues.

C7. The proposed IPSAS does not cover goodwill, minority interests, and corporate assets. IPSASB concluded that these issues are not directly relevant in a public sector context. For example, corporate assets in a government are generally non cash generating and should, therefore, apply IPSAS 21.

C8 IPSASB noted that the scope of IPSAS 21 excludes non cash-generating property, plant and equipment that is measured using the fair value model. The rationale for the approach in IPSAS 21 is that assets carried at revalued amounts in accordance with the allowed alternative treatment in IPSAS 21 will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting date and any impairment would be taken into account in that valuation. IPSASB therefore considered whether an analogous scope exclusion should be included in this Standard.

C9 The IPSASB considered the view that guidance on determining impairment losses for assets carried at fair value would be

useful for entities with assets on the fair value model.

However, the IPSASB concluded that the rationale for not requiring an impairment test for non-cash generating assets carried at revalued amounts under the allowed alternative treatment in IPSAS 17 also applied to cash-generating assets and that it would therefore not be consistent with the approach in IPSAS 21 to include assets carried at fair value within the scope of this Standard.

Definitions

C10. IPSASB concluded that assets in public sector are generally non-cash generating and that service potential is the preferred basis to determine impairment. It therefore introduced a rebuttable presumption that assets that incorporate an element of both cash-generation and non-cash-generation should be treated as non-cash generating assets. IPSASB confirmed that the description of a “commercial return” was adequately explained in IPSAS 21. It rejected adopting a components approach because of cost-benefit considerations.

Indicators of impairment

C11. The indicators for impairment of cash-generated assets – both external sources and internal sources of information are similar to those of IAS 36 except for the indicator of market capitalization. The proposed standard relies on considerations that either market influences have affected estimated future cash inflows or that there is evidence of obsolescence, damage

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or adverse performance than those expected or planned for.
IPSAB concluded that the provisions needed no amendment for
use in a public sector context.

Recoverable amount Vs recoverable service amount

C12. The calculation of recoverable service amount in IPSAS 21 has
alternatives to calculating fair value or value in use, namely the
depreciated replacement cost approach, the restoration cost
approach or the service units approach. These alternatives are
not available for cash-generating assets.

Redesignation of assets

C13. It is possible that cash-generating can become non-cash generating and vice-versa. IPSASB concluded that a redesignation from one type of asset to the other can occur only when there is clear evidence that the redesignation is appropriate. IPSASB concluded as well that a redesignation by itself does not trigger an impairment test or the reversal of an impairment loss. Instead an entity should evaluate the appropriate indicators to determine if a test is needed.

Other Assets

C14. This exposure draft includes specific requirements for
testing intangible assets with an indefinite useful life for
impairment, and for recognizing and measuring impairment

losses related to such intangible assets. IPSASB concluded that even though it had not issued a standard on intangible assets, it would be helpful to include guidance on the impairment related issues for those public sector entities that have included intangible assets with an indefinite useful life in their balance sheets.

Group of Assets

C15. As in 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) 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 IPSASB concluded that the notion of a CGU was appropriate for cash-generating assets in a public sector context.

C16. As in 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 belong. The IPSASB, once again, concluded that similar

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considerations are appropriate for cash-generating assets in a public sector context.

Comparison with IAS 36

International Public Sector Accounting Standard IPSAS xx *Impairment of Cash-Generating Assets* deals with the impairment of Cash-Generating 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 deals with the impairment of Cash-Generating assets of public sector entities while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS xx, however, requires that the impairment of non-cash-generating assets of public sector entities be accounted for under IPSAS 21.
- The objective as stated in IPSAS 22 applies specifically to cash-generated assets whereas the objective in IAS 36 applies to assets.
- The Scope paragraph differs in that the introductory paragraph has been aligned with IPSAS 21 and the scope exclusions are narrower than IAS 36.
- The topics of goodwill, minority interest, and corporate assets have been excluded from the IPSAS
- Additional commentary has been added to differentiate cash-generating from non-cash generating assets
- Market capitalization as an indicator to assess whether an asset may be impaired has been deleted from the IPSAS.
- Guidance for redesignation of assets from cash-generating to non-cash generating and non-cash generating to cash-generating has been provided.
- IPSAS 22 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 22. The equivalent terms in IAS 36 are “enterprise,” “income,” “recoverable amount,” “income statement” and “balance sheet.”

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DRAFT ED #:
IMPAIRMENT OF NON CASH-GENERATING ASSETS
AND
CASH-GENERATING ASSETS

ILLUSTRATIVE SINGLE/COMBINED STANDARD TO DEAL WITH IMPAIRMENT OF BOTH NON-CASH-GENERATING AND CASH GENERATING ASSETS

**THIS DRAFT COMBINES IPSAS 21 AND RELEVANT SECTIONS OF IPSAS ED,
“IMPAIRMENT OF CASH-GENERATING ASSETS”**

International Public Sector Accounting Standard

Impairment of Non-Cash-Generating Assets and Cash-Generating Assets

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International Public Sector Accounting Standard

IPSAS 21

Impairment of Non--Cash-Generating Assets and Cash-Generating Assets

The standards, which have been set in bold type, 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

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

Scope

2. **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets and cash-generating 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 15, “Financial Instruments: Disclosure and Presentation”;**
 - (d) **Investment property that is measured using the fair value model (see IPSAS 16, “Investment Property”);**
 - (e) **Non-cash-generating and cash-generating property, plant and equipment that is measured at revalued amounts (see IPSAS 17, “Property, Plant and Equipment”); and**
 - (f) **Other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.**

3. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
4. This Standard excludes from its scope the impairment of assets that are dealt with in another International Public Sector Accounting Standard. GBEs apply IAS 36 and therefore are not subject to the provisions of this Standard.
5. This Standard includes non-cash-generating and cash-generating intangible assets within its scope. Entities apply the requirements of this Standard to recognizing and measuring impairment losses, and reversals of impairment losses, related to non-cash-generating and cash-generating intangible assets.
6. This Standard does not apply to inventories and assets arising from construction contracts because existing International Public Sector Accounting Standards applicable to these assets contain requirements for recognizing and measuring these assets.
7. 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 any International Public Sector Accounting Standard that the IPSASB develops on the basis of IAS 39, “Financial Instruments: Recognition and Measurement” to deal with the recognition and measurement of financial instruments.
8. This Standard does not require the application of an impairment test to an investment property that is carried at fair value in accordance with 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.
9. This Standard does not require the application of an impairment test to assets that are carried at revalued amounts 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 at the reporting date and any impairment will be taken into account in the valuation. In addition, the approach adopted in this Standard to measuring an asset’s recoverable service amount means that it is unlikely that the recoverable service amount of an asset will be materially less than an asset’s revalued amount and that any such differences would relate to the costs of disposal of the asset.
10. Investments in:

- (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 15.

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 12 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs.

Definitions

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

An active market is a market in which 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.

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 thereon.

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

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

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

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.

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.

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

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

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

The **recoverable amount** of a cash-generating asset is the higher of its fair value less costs to sell and its value in use.

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

Useful life 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 cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Government Business Enterprises

13. 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.

Identifying Non-Cash-Generating Assets

14. Non-cash-generating assets are those held to provide services, but do not generate a commercial return.

Identifying Cash-Generating Assets

15. 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 that adopted by a profit-oriented entity. Holding an asset to generate a “commercial return” indicates that an entity intends to generate positive cash inflows from the asset (or of the unit of which the asset is a part) and earn a return that reflects the risk involved in holding the asset.
16. Assets held by GBEs are cash-generating assets. Public sector entities other than GBEs may hold assets to generate a commercial 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) is operated with the objective of generating a commercial return through the provision of goods and or services to external parties.
17. There are a number of circumstances in which public sector entities may hold assets that generate a return. Cash-generating assets of a public sector entity generate cash flows may be largely independently of the other non-

cash-generating assets of the entity. For example, the deeds office earns land registration fees, independently from the department of land affairs.

18. The production or supply of goods and services (or the use of a property for administrative purposes) can also generate cash flows. A building and the assets in the building are held to facilitate the production of goods and services and the cash flows are attributable to the building and the assets used in the production or supply process. The principles in this standard are applied to these assets if the building is owner-occupied and carried at cost.
19. In certain instances, an asset may generate cash although its primary held for the purpose of service delivery. For example, a waste disposal plant has been established to assist with the safe disposal of medical waste generated by state controlled hospitals. The plan also treats medical waste generated by other private hospitals. This is incidental to the activities of the plant, and the assets that generate cash cannot be distinguished from the non-cash-generating assets.
20. In other instances, a portion of an asset may earn cash flows. For example, a public hospital has ten wards, nine of which are used for non-fee paying patients, and other is used for full-fee paying patients on a commercial basis. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The significance of the portion that provides a commercial return needs to be considered to determine whether the entity should apply the cash-generating or non-cash-generating provisions of this standard. If the cash-generating component is a relatively insignificant component of the arrangement as a whole, the entity shall apply the non-cash-generating provisions.
21. It may be difficult to determine whether the portion that generates cash flows is significant. Judgment is needed to determine which provisions to apply. An entity shall develop criteria so that it can exercise that judgment consistently in accordance with the definitions of cash-generating assets and non-cash generating assets. Paragraph 173 requires an entity to disclose these criteria when classification is difficult. However, given the overall objectives of public sector entities, the presumption if in doubt shall be that the assets are non-cash generating.

Depreciation

22. 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, the term “amortization” is generally used instead of “depreciation”. Both terms have the same meaning.

Impairment

23. 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 (amortization). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it.

Non-Cash-Generating Assets

24. An entity may have a purpose-built military storage facility that it no longer uses. In addition, because of the specialized nature of the facility and its location, it is unlikely that it can be leased out or sold and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. In this example, the asset is regarded as impaired as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives.

Cash-Generating Assets

25. An entity may have a municipal parking garage that is currently being used at 25 percent of capacity. It was originally intended to generate a commercial rate of return at 75 percent of capacity. In this example, the asset is regarded as impaired because its carrying amount exceeds its recoverable amount.

Non-Cash-Generating Assets

Identifying a Non-Cash-Generating Asset that may be Impaired

26. Paragraphs 27 to 36 specify when recoverable service amount would be determined for non-cash-generating assets.
27. A non cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraph 29 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.
- 28. An entity shall assess at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.**

29. **In assessing whether there is any indication that a non-cash-generating asset may be impaired, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **Cessation, or near cessation, of the demand or need for services provided by the non-cash-generating 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.**

Internal sources of information

- (c) **Evidence is available of physical damage of a non-cash-generating 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, a non-cash-generating asset is used or is expected to be used. These changes include the non-cash-generating asset becoming idle, plans to discontinue or restructure the operation to which a non-cash-generating asset belongs, or plans to dispose of a non-cash-generating asset before the previously expected date.**
- (e) **A decision to halt the construction of the non-cash-generating asset before it is complete or in a usable condition.**
- (f) **Evidence is available from internal reporting that indicates that the service performance of a non-cash-generating asset is, or will be, significantly worse than expected.**

30. The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are utilized in providing those services, but negative fluctuations in demand are not necessarily indications 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 have responded by not acquiring the non-cash-generating asset being considered for impairment testing.
31. The list in paragraph 29 is not exhaustive. There may be other indications that a non-cash-generating asset may be impaired. The existence of other indications may result in the entity estimating the non-cash-generating

asset's recoverable service amount. For example, any of the following may be an indication of impairment:

- (a) During the period, a non-cash-generating asset's market value has declined significantly 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 non-cash-generating asset.

32. The events or circumstances that may indicate an impairment of a non-cash-generating 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 a non-cash-generating asset during the period may also be an indication 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 non-cash-generating 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 indications referred to in paragraph 29.

33. In assessing whether a halt in construction would trigger 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 construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted.

34. Evidence from internal reporting that indicates that a non-cash-generating asset may be impaired, as referred to in paragraph 29(f) above, relates to the ability of that asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the non-cash-generating asset. This includes the existence of:

- (a) Significantly higher costs of operating or maintaining the non-cash-generating asset, compared with those originally budgeted; and

- (b) Significantly lower service or output levels provided by the non-cash-generating asset compared with those originally expected due to poor operating performance.

A significant increase in operating costs of a non-cash-generating 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 non-cash-generating 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 non-cash-generating asset.

- 35. The concept of materiality applies in identifying whether the recoverable service amount of a non-cash-generating asset needs to be estimated. For example, if previous assessments show that a non-cash-generating 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 the non-cash-generating asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 29.
- 36. If there is an indication that a non-cash-generating asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortization) method or the residual value for that asset need to be reviewed and adjusted in accordance with the International Public Sector Accounting Standard applicable to the asset, even if no impairment loss is recognized for the non-cash-generating asset.

Measuring Recoverable Service Amount for Non-Cash-Generating Assets

- 37. This Standard defines recoverable service amount as the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Paragraphs 38 to 41 set out the basis for measuring recoverable service amount.
- 38. It is not always necessary to determine both a non-cash-generating asset's fair value less costs to sell and its value in use. If either of these amounts exceeds that asset's carrying amount, the non-cash-generating asset is not impaired and it is not necessary to estimate the other amount.
- 39. It may be possible to determine fair value less costs to sell, even if a non-cash-generating asset is not traded in an active market. Paragraph 41 sets out possible alternative bases for estimating fair value less costs to sell

when an active market for the asset does not exist. However, sometimes it will not be possible to determine fair value less costs to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of that asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the non-cash-generating asset's value in use as its recoverable service amount.

40. If there is no reason to believe that a non-cash-generating asset's value in use materially exceeds its fair value less costs to sell, that asset's fair value less costs to sell may be used as its recoverable service amount. This will often be the case for a non-cash-generating asset that is held for disposal. This is because the value in use of a non-cash-generating asset held for disposal will consist mainly of the 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 that asset is likely to be greater than its fair value less costs to sell.
41. In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs to sell or value in use.

Fair value less Costs to Sell for Non-Cash-Generating Assets

42. The best evidence of a non-cash-generating asset's 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 that asset.
43. If there is no binding sale agreement but a non-cash-generating asset is traded in an active market, fair value less costs to sell is that 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 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 as at which the estimate is made.
44. If there is no binding sale agreement or active market for a non-cash-generating asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of that asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management or the governing body is compelled to sell immediately.

45. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining 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 and costs associated with reducing or reorganizing a business following the disposal of a non-cash-generating asset are not direct incremental costs to dispose of that asset.

Value in Use of Non-Cash-Generating Assets

46. This Standard defines the value in use of a noncash-generating asset as the present value of the asset's remaining service potential. "Value in use" in this Standard refers to "value in use of a noncash-generating asset" unless otherwise specified. The present value of the remaining service potential of a non-cash-generating asset is determined using any one of the approaches identified in paragraphs 47 to 51, as appropriate.

Depreciated Replacement Cost Approach

47. Under this approach, the present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of that asset. The replacement cost of an asset is the cost to replace the non-cash-generating asset's gross service potential. This cost is depreciated to reflect that asset in its used condition. A non-cash-generating asset may be replaced either through reproduction (replication) of the existing non-cash-generating asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the non-cash-generating asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of that asset.
48. The replacement cost and reproduction cost of a non-cash-generating asset are determined on an "optimized" basis. The rationale is that the entity would not replace or reproduce the non-cash-generating asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized 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 non-cash-generating asset.
49. 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

50. Restoration cost is the cost of restoring the service potential of a non-cash-generating asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the non-cash-generating asset is determined by subtracting the estimated restoration cost of that asset from the current cost of replacing the remaining service potential of the non-cash-generating asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the non-cash-generating asset whichever is lower. Paragraphs 47 and 48 include additional guidance on determining the replacement cost or reproduction cost of a non-cash-generating asset.

Service Units Approach

51. Under this approach, the present value of the remaining service potential of the non-cash-generating asset is determined by reducing the current cost of the remaining service potential of that asset before impairment to conform with the reduced number of service units expected from the non-cash-generating asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the non-cash-generating asset before impairment is usually determined as the depreciated reproduction or replacement cost of that asset before impairment, whichever is lower.

Application of Approaches

52. 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 a depreciated replacement cost approach or a 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 a service units approach when appropriate; and
 - (c) Impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach when appropriate.

Recognizing and Measuring an Impairment Loss for Non-Cash-Generating Assets

53. Paragraphs 54 to 59 set out the requirements for recognizing and measuring impairment losses for non-cash-generating assets. Recognizing and impairment losses for cash-generating assets and units are dealt with in paragraphs 119-124 and 149-153, respectively.
54. **If, and only if, the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the non-cash-generating asset shall be reduced to its recoverable service amount. That reduction is an impairment loss.**
55. As noted in paragraph 28, 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 29 to 35 identify key indications that an impairment loss may have occurred.
56. **An impairment loss shall be recognized immediately in net surplus/deficit.**
57. **When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, an entity shall recognize a liability if, and only if, that is required by another International Public Sector Accounting Standard.**
58. Where the estimated impairment loss is greater than the carrying amount of the non-cash-generating asset, the carrying amount of that asset is reduced to zero with a corresponding amount recognized in net surplus/deficit. 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 entity may need to make a provision for dismantling costs if required by IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.”
59. **After the recognition of an impairment loss, the depreciation (amortization) charge for the non-cash-generating asset shall be adjusted in future periods to allocate that asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Reversing an Impairment Loss for Non-Cash-Generating Assets

60. Paragraphs 61 to 72 set out the requirements for reversing an impairment loss recognized for a non-cash-generating asset in prior periods.
61. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for a**

non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.

- 62. In assessing whether there is any indication that an impairment loss recognized in prior periods for a non-cash-generating asset may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) Resurgence of the demand or need for services provided by the non-cash-generating 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 non-cash-generating asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance a *non-cash-generating* asset's performance or restructure the operation to which that asset belongs.**
 - (d) A decision to resume construction of the non-cash-generating asset that was previously halted before it was completed or in a usable condition.**
 - (e) Evidence is available from internal reporting that indicates that the service performance of the non-cash-generating asset is, or will be, significantly better than expected.**
- 63. Indications of a potential decrease in an impairment loss in paragraph 62 mainly mirror the indications of a potential impairment loss in paragraph 29.**
- 64. The list in paragraph 62 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 non-cash-generating asset's recoverable service amount. For example, any of the following may be an indication that the impairment loss may have reversed:**
- (a) A significant rise in a non-cash-generating asset's market value;
or**

- (b) A significant long-term increase in the demand or need for the services provided by the non-cash-generating asset.
- 65. A commitment to discontinue or restructure an operation in the near future is an indication of a reversal of an impairment loss of a non-cash-generating 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 indication of reversal of impairment often relate to cases where the expected discontinuance or restructuring of the operation would create opportunities to enhance the utilization of the non-cash-generating 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 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 indication that an impairment loss recognized for the asset in prior periods may have to be reversed.
- 66. If there is an indication that an impairment loss recognized for a non-cash-generating 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 Public Sector Accounting Standard applicable to that asset, even if no impairment loss is reversed for that asset.
- 67. **An impairment loss recognized in prior periods for a non-cash-generating asset shall be reversed if, and only if, there has been a change in the estimates used to determine that asset's recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the non-cash-generating asset shall, except as described in paragraph 70, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.**
- 68. 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. Paragraph 59 identifies key indications that an impairment loss recognized for a non-cash-generating asset in prior periods may no longer exist or may have decreased.
- 69. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of a non-cash-generating asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. IPSAS 3 requires an entity to identify 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 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 fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.
- 70. The increased carrying amount of a non-cash-generating asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.**
- 71. A reversal of an impairment loss for a non-cash-generating asset shall be recognized immediately in net surplus/deficit.**
- 72. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the non-cash-generating asset shall be adjusted in future periods to allocate that asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Cash-Generating Assets

Identifying a Cash-Generating Asset that may be Impaired

- 73. In assessing whether there is any indication that a cash-generating asset may be impaired, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) During the period, a cash-generating asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) Significant 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, market, economic or legal environment in which the entity operates or in the market to which a cash generating asset is dedicated.
- (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating

a cash-generating asset's value in use and decrease that asset's recoverable amount materially.

Internal sources of information

- (d) **Evidence is available of obsolescence or physical damage of a cash-generating asset.**
 - (e) **Significant 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, a cash-generating asset is used or is expected to be used. These changes include that asset becoming idle, plans to discontinue or restructure the operation to which a cash-generating asset belongs, plans to dispose that asset before the previously expected date, and reassessing the useful life of that asset as finite rather than indefinite.**
 - (f) **Evidence is available from internal reporting that indicates that the economic performance of a cash-generating asset is, or will be, worse than expected.**
74. The list in paragraph 73 is not exhaustive. An entity may identify other indications that a cash-generating asset may be impaired and these would also require the entity to determine the asset's recoverable amount.
75. Evidence from internal reporting that indicates that a cash-generating asset may be impaired includes the existence of:
- (a) Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
 - (b) Actual net cash flows or net surplus or deficit flowing from the cash-generating asset that are significantly worse than those budgeted;
 - (c) A significant decline in budgeted net cash flows or surpluses or a significant increase in budgeted loss, flowing from the cash-generating asset; or
 - (d) Deficits or net cash outflows for the cash-generating asset, when current period amounts are aggregated with budgeted amounts for the future.
76. This Standard requires an intangible asset with an indefinite useful life or not yet available for use to be tested for impairment, at least annually. The concept of materiality applies in identifying whether the recoverable amount of a cash-generating asset needs to be estimated. For example, if previous calculations show that a cash-generating asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate that asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may

show that a cash-generating asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 73.

77. As an illustration of paragraph 73, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of a cash-generating asset's recoverable amount in the following cases:
- (a) If the discount rate used in calculating the cash-generating asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for a cash-generating asset that has a long remaining useful life.
 - (b) If the discount rate used in calculating the cash-generating asset's value in use is likely to be affected by the increase in these market rates but previous sensitivity analysis of recoverable amount shows that:
 - (i) It is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (e.g., in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly exchange revenues) to compensate for any increase in market rates); or
 - (ii) The decrease in recoverable amount is unlikely to result in a material impairment loss.
78. If there is an indication that a cash-generating asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortization) method or the residual value for that asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring the Recoverable Amount for Cash-Generating Assets

79. This Standard defines recoverable amount as the higher of a cash-generating asset's fair value less costs to sell and its value in use. Paragraphs 80-90 establish the requirements for measuring recoverable amount. These requirements use the term "cash-generating asset" but apply equally to an individual cash-generating asset or a cash-generating unit.
80. It is not always necessary to determine both a cash-generating asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the cash-generating asset's carrying amount, that asset is not impaired and it is not necessary to estimate the other amount.

81. It may be possible to determine fair value less costs to sell, even if a cash-generating asset is not traded in an active market. However, sometimes it will not be possible to determine 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 cash-generating asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use that asset's value in use as its recoverable amount.
82. If there is no reason to believe that a cash-generating asset's value in use materially exceeds its fair value less costs to sell, that asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for a cash-generating asset that is held for disposal. This is because the value in use of a cash-generating asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of that
83. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 140-145), unless either:
- (a) The cash-generating asset's fair value less costs to sell is higher than its carrying amount; or
 - (b) The cash-generating asset's value in use can be estimated to be close to its fair value less costs to sell and fair value less costs to sell can be determined.
84. In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations for determining fair value less costs to sell or value in use.

Measuring the Recoverable Amount of an Cash-Generating Intangible Asset with an Indefinite Useful Life

85. A cash-generating intangible asset with an indefinite useful life shall be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such a cash-generating asset's recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

- (a) If the intangible asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation (see paragraphs 143-148);
 - (b) The most recent recoverable amount calculation resulted in an amount that exceeded the cash-generating asset's carrying amount by a substantial margin; and
 - (c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the cash-generating
86. The best evidence of a cash-generating asset's 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 that asset.
87. If there is no binding sale agreement but a cash-generating asset is traded in an active market, fair value less costs to sell is that 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 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 as at which the estimate is made.
88. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the balance sheet date, from 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. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.
89. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining 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 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.

90. Sometimes, the disposal of a cash-generating asset would require the buyer to assume a liability and only a single fair value less costs to sell is available for both the asset and the liability.

Value in Use of Cash-Generating Assets

91. **The following elements shall be reflected in the calculation of a cash-generating asset's value in use:**

- (a) An estimate of the future cash flows the entity expects to derive from the cash-generating asset;**
- (b) Expectations about possible variations in the amount or timing of those future cash flows;**
- (c) The time value of money, represented by the current market risk-free rate of interest;**
- (d) The price for bearing the uncertainty inherent in the cash-generating asset; and**
- (e) Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the cash-generating asset.**

92. Estimating the value in use of a cash-generating asset involves the following steps:

- (a) Estimating the future cash inflows and outflows to be derived from continuing use of the cash-generating asset and from its ultimate disposal; and
- (b) Applying the appropriate discount rate to those future cash flows.

93. The elements identified in paragraph 93 (b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, i.e. the weighted average of all possible outcomes. Appendix X provides additional guidance on the use of present value techniques in measuring a cash-generating asset's value in use.

Basis for Estimates of Future Cash Flows of Cash-Generating Assets

94. In measuring value in use an entity shall:

- (a) Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the cash-generating asset. Greater weight shall be given to external evidence.**
- (b) Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.**
- (c) Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.**

95. Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

96. Detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

97. Cash flow projections until the end of a cash-generating asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.
98. When conditions are favorable, competitors may enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the cash-generating asset is used.
99. In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the cash-generating asset.

Composition of Estimates of Future Cash Flows for Cash-Generating Assets

100. Estimates of future cash flows shall include:

- (a) Projections of cash inflows from the continuing use of the cash-generating asset;**
 - (b) Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the cash-generating asset (including cash outflows to prepare that asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and**
 - (c) Net cash flows, if any, to be received (or paid) for the disposal of the cash-generating asset at the end of its useful life.**
101. Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).

102. Projections of cash outflows include those for the day-to-day servicing of the cash-generating asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of that asset.
103. When the carrying amount of a cash-generating asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before that asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.
104. To avoid double counting, estimates of future cash flows do not include:
- (a) Cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the cash-generating asset under review (for example, financial assets such as receivables); and
 - (b) Cash outflows that relate to obligations that have been recognized as liabilities (for example, payables, pensions or provisions).
- 105. Future cash flows shall be estimated for the cash-generating asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:**
- (a) A future restructuring to which an entity is not yet committed; or**
 - (b) Improving or enhancing the cash-generating asset's performance.**
106. Because future cash flows are estimated for the cash-generating asset in its current condition, value in use does not reflect:
- (a) Future cash outflows or related cost savings (for example reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or
 - (b) Future cash outflows that will improve or enhance the cash-generating asset's performance or the related cash inflows that are expected to arise from such outflows.

107. A restructuring is a program that is planned and controlled by management and materially changes either the scope of the business undertaken by an entity or the manner in which the business is conducted. IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* contains guidance clarifying when an entity is committed to a restructuring.
108. When an entity becomes committed to a restructuring, some cash-generating assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:
- (a) Its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and (b) its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with IPSAS 19.
109. Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits associated with the cash outflow.
110. Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the cash-generating asset in its current condition. When a unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.
111. **Estimates of future cash flows shall not include:**
- (a) **Cash inflows or outflows from financing activities; or**
 - (b) **Income tax receipts or payments.**
112. Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities.

Similarly, since the discount rate is determined on a pre-tax basis, future cash flows are also determined on a pre-tax basis.

- 113. The estimate of net cash flows to be received (or paid) for the disposal of a cash-generating asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of that asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.**
114. The estimate of net cash flows to be received (or paid) for the disposal of a cash-generating asset at the end of its useful life is determined in a similar way to a cash-generating asset's fair value less costs to sell, except that, in estimating those net cash flows:
- (a) An entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used.
 - (b) The entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the cash-generating asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

Foreign Currency Future Cash Flows for Cash-Generating Assets

115. Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount Rate for Cash-Generating Assets

- 116. The discount rate (rates) shall reflect(s) current market assessments of:**
- (a) **The time value of money; and**
 - (b) **The risks specific to the asset for which the future cash flow estimates have not been adjusted.**

117. A rate that reflects current market assessments of the time value of money and the risks specific to the cash-generating asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets. However, the discount rate(s) used to measure a cash-generating asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.
118. When a cash-generating asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. Appendix X provides additional guidance on estimating the discount rate in such circumstances.

Recognizing and Measuring an Impairment Loss for Cash-Generating Assets

119. Paragraphs 120-124 set out the requirements for recognizing and measuring impairment losses for an individual cash-generating asset.
- 120. If, and only if, the recoverable amount of a cash-generating asset is less than its carrying amount; the carrying amount of that asset shall be reduced to its recoverable amount/recoverable service amount. That reduction is an impairment loss.**
- 121. An impairment loss shall be recognized immediately in net surplus or deficit.**
- .
- 122. When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognize a liability if, and only if, that is required by another Standard.**
- 123. After the recognition of an impairment loss, the depreciation (amortization) charge for the cash-generating asset shall be adjusted in future periods to allocate that asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

124. If an impairment loss is recognized, any related deferred tax assets or liabilities are determined in accordance with the International Accounting Standard *Income Taxes*.

Reversing an Impairment Loss for Cash-Generating Assets

125. An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount/recoverable service amount of that cash-generating asset.
126. In assessing whether there is any indication that an impairment loss recognized in prior periods for a cash-generating asset may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications for cash-generating assets:

External sources of information

- (a) The cash generating asset's market value has increased significantly during the period.
- (b) Significant 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, market, economic or legal environment in which the entity operates or in the market to which the cash-generating asset is dedicated.
- (c) Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the cash-generating asset's value in use and increase the asset's recoverable amount materially.

Internal sources of information

- (d) Significant 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 cash-generating asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the unit belongs.

- (e) **Evidence is available from internal reporting that indicates that the economic performance of the cash-generating asset is, or will be, better than expected.**
127. Indications of a potential decrease in an impairment loss in paragraph 126 mainly mirror the indications of a potential impairment loss in paragraph 73.
128. If there is an indication that an impairment loss recognized for a cash-generating 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 Standard applicable to the asset, even if no impairment loss is reversed for the cash-generating asset.
- 129. An impairment loss recognized in prior periods for a cash-generating asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount/recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the cash-generating asset shall, except as described in paragraph 133, be increased to its recoverable amount/recoverable service amount. That increase is a reversal of an impairment loss.**
130. This Standard requires an entity to make a formal estimate of recoverable amount only if an indication of a reversal of an impairment loss is present. Paragraph 73 identifies key indications that an impairment loss recognized for a cash-generating asset in prior periods may no longer exist or may have decreased.
131. A reversal of an impairment loss reflects an increase in the estimated service potential of a cash-generating asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. Paragraph 166 requires an entity to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:
- (a) A change in the basis for recoverable amount/recoverable service amount (i.e., whether recoverable amount/recoverable service amount is based on fair value less costs to sell or value in use);
 - (b) If recoverable amount/recoverable service amount was based on value in use, a change in the amount or timing of estimated future cash flows or in the discount rate; or

- (c) If recoverable amount/recoverable service amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.
132. A cash-generating asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the 'unwinding' of the discount), even if the recoverable amount/recoverable service amount of the cash-generating asset becomes higher than its carrying amount.
- 133. The increased carrying amount of an asset attributable to a reversal of an impairment loss 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.**
134. Any increase in the carrying amount of an asset above 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 is a revaluation. In accounting for such a revaluation, an entity applies the Standard applicable to the asset.
- 135. A reversal of an impairment loss for an asset shall be *recognized immediately in net surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in IPSAS 17 Property, Plant and Equipment).***
- 136. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Cash-Generating Units

Identifying the Cash-Generating Unit to Which an Asset Belongs

- 137..** The recoverable amount of an individual asset cannot be determined if:
- (a) The asset's value in use cannot be estimated to be close to its fair value less costs to sell (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and

- (b) The asset does not generate cash inflows that are largely independent of those from other assets. In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.
138. As defined in paragraph 12, an asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgment. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.
138. Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from a cash-generating asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors including how management monitors the entity's operations (such as by product lines, businesses, individual locations, districts or regional areas) or how management makes decisions about continuing or disposing of the entity's assets and operations.
139. **If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:**
- (a) **The future cash inflows used to determine the asset's or cash-generating unit's value in use; and**
 - (b) **The future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.**
140. Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, water provided by a municipally-owned water department), this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, or to any

other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if internal transfer prices do not reflect management's best estimate of future prices that could be achieved in arm's length transactions.

141 Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

142. If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 167 requires disclosures about the cash-generating unit, if an impairment loss is recognized or reversed for the cash-generating unit.

Recoverable Amount and Carrying Amount of a Cash Generating Unit

143. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use.

144. The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

145. The carrying amount of a cash-generating unit:
- (a) Includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and
 - (b) Does not include the carrying amount of any recognized liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability. This is because fair value less costs to sell and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognized.

146. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate or are used to generate the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred.

147. It may be necessary to consider some recognized liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs to sell (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the estimated selling price for the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.
148. For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash-generating unit (for example, receivables or other financial assets) or liabilities that have been recognized (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Recognizing and Measuring the Impairment Loss for a Cash-Generating Unit

149. **An impairment loss shall be recognized for a cash-generating unit if, and only if, its recoverable amount is less than the carrying amount. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit to the other assets of the unit on a pro rata-basis based on the carrying amount of each asset in the unit. These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph.**
150. **In allocating an impairment loss in accordance with paragraph 149, an entity shall not reduce the carrying amount of an asset below the highest of:**
- (a) Its fair value less costs to sell (if determinable);**
 - (b) Its value in use (if determinable); and**
 - (c) Zero.**

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).

151. If it is not practicable to estimate the recoverable amount of each individual asset of a cash-generating unit, this Standard requires an arbitrary allocation of an impairment loss between the assets of that unit, because all assets of a cash-generating unit work together.
152. If the recoverable amount of an individual asset cannot be determined:
- (a) An impairment loss is recognized for the asset if its carrying amount is greater than the higher of its fair value less costs to sell and the results of the allocation procedures; and
 - (b) No impairment loss is recognized for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs to sell is less than its carrying amount.
153. After the requirements in paragraphs 149 and 150 have been applied, a liability shall be recognized for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another Standard.

Reversing an Impairment Loss for Cash-Generating Units

154. An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount/recoverable service amount of that cash-generating unit.
155. In assessing whether there is any indication that an impairment loss recognized in prior periods for a cash-generating unit may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications for cash-generating units:

External sources of information

- (a) The cash generating unit's market value has increased significantly during the period.
- (b) Significant 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, market, economic or legal environment in which the entity operates or in the market to which the cash-generating unit is dedicated.

- (c) **Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the cash-generating unit's value in use and increase the unit's recoverable amount materially.**

Internal sources of information

- (d) **Significant 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 cash-generating unit is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the unit's performance or restructure the operation to which the unit belongs.**
- (e) **Evidence is available from internal reporting that indicates that the economic performance of the cash-generating unit is, or will be, better than expected.**

- 156. Indications of a potential decrease in an impairment loss in paragraph 155 mainly mirror the indications of a potential impairment loss in paragraph 73.
- 157. If there is an indication that an impairment loss recognized for an cash-generating unit 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 Standard applicable to the asset, even if no impairment loss is reversed for the cash-generating unit.
- 158. **An impairment loss recognized in prior periods for an cash-generating unit shall be reversed if, and only if, there has been a change in the estimates used to determine the unit's recoverable amount/recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the cash-generating unit shall, except as described in paragraph 133, be increased to its recoverable amount/recoverable service amount. That increase is a reversal of an impairment loss.**
- 159. This Standard requires an entity to make a formal estimate of recoverable amount only if an indication of a reversal of an impairment loss is present. Paragraph 73 identifies key indications that an impairment loss recognized for a cash-generating unit in prior periods may no longer exist or may have decreased.

160. A reversal of an impairment loss reflects an increase in the estimated service potential of a cash-generating unit, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. Paragraph 166 requires an entity to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:
- (a) A change in the basis for recoverable amount/recoverable service amount (i.e., whether recoverable amount/recoverable service amount is based on fair value less costs to sell or value in use);
 - (b) If recoverable amount/recoverable service amount was based on value in use, a change in the amount or timing of estimated future cash flows or in the discount rate; or
 - (c) If recoverable amount/recoverable service amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.
161. A cash-generating unit's value in use may become greater than the unit's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the unit has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the 'unwinding' of the discount), even if the recoverable amount/recoverable service amount of the unit becomes higher than its carrying amount.
- 162. A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized in accordance with paragraph 129.**
- 163. In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 162, the carrying amount of an asset shall not be increased above the lower of:**
- (a) Its recoverable amount (if determinable); and**
 - (b) The carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.**

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit.

Redesignation of Assets

164. The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets shall only occur 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 arises from, as a minimum, the listed indications applicable to the asset after redesignation.
165. There are a number of circumstances in which public sector entities may hold assets that do not generate a return. The assets are held for service delivery purposes and not for their cash generating potential. In these instances the principles in paragraphs 26-72 should be applied to determine whether or not these assets are impaired. For example, an effluent treatment plant has been constructed to service a residential area. At present, excess capacity is used to treat industrial effluent at commercial rates, but it is envisaged that in five year's time it will no longer have any excess capacity. In this instance, paragraph 73-136 is applied to determine any impairment, and the temporary cash generating capacity is disregarded.

Disclosure

166. **An entity shall disclose the following for each class of assets:**
- (a) **The amount of impairment losses recognized in net surplus/deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.**
 - (b) **The amount of reversals of impairment losses recognized in net surplus/deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.**
 - (c) **Any change in estimates that causes the increase in estimated service potential**
167. A class of assets is a grouping of assets of similar nature and use in an entity's operations.

168. The information required in paragraph 166 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 by IPSAS 17, “Property, Plant and Equipment”.
169. **An entity that reports segment information in accordance with IPSAS 18, “Segment Reporting” shall disclose the following for each segment reported by the entity:**
- (a) **The amount of impairment losses recognized in net surplus/deficit during the period.**
 - (b) **The amount of reversals of impairment losses recognized in net surplus/deficit during the period.**
170. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period:**
- (a) **The events and circumstances that led to the recognition or reversal of the impairment loss.**
 - (b) **The amount of the impairment loss recognized or reversed.**
 - (c) **The nature of the asset.**
 - (d) **The segment to which the asset belongs, if the entity reports segment information in accordance with IPSAS 18.**
 - (e) **Whether the recoverable service amount of a non-cash-generating asset is its fair value less costs to sell or its value in use.**
 - (f) **If the recoverable service amount of a non-cash-generating asset is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).**
 - (g) **If the recoverable service amount of a non-cash-generating asset is value in use, the approach used to determine value in use.**
171. **An entity shall disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognized during the period for which no information is disclosed in accordance with paragraph 170:**
- (a) **The main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses).**

- (b) **The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**
172. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.
173. **When judgment is needed to determine whether to apply the non-cash-generating assets or cash-generating assets provisions, an entity shall disclose the criteria that it developed to exercise that judgment consistently in accordance with the definitions of cash-generating assets and non-cash generating assets.**

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-generating Units Containing Intangible Assets with Indefinite Useful Lives

174. **An entity shall disclose the information required by (a)-(e) for each cash-generating unit for which the carrying amount of intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of intangible assets with indefinite useful lives:**
- (a) **The carrying amount of intangible assets with indefinite useful lives allocated to the unit.**
 - (b) **The basis on which the unit's recoverable amount has been determined (i.e., value in use or fair value less costs to sell).**
 - (c) **If the unit's recoverable amount is based on value in use:**
 - (i) **A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's recoverable amount is most sensitive.**
 - (ii) **A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**
 - (iii) **The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit, an explanation of why that longer period is justified.**

- (iv) **The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit is dedicated.**
 - (v) **The discount rate(s) applied to the cash flow projections.**
- (d) **If the unit's recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit, the following information shall also be disclosed:**
- (i) **A description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's recoverable amount is most sensitive.**
 - (ii) **A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**
- (e) **If a reasonably possible change in a key assumption on which management has based its determination of the unit's recoverable amount would cause the unit's carrying amount to exceed its recoverable amount:**
- (i) **The amount by which the unit's recoverable amount exceeds its carrying amount.**
 - (ii) **The value assigned to the key assumption.**
 - (iii) **The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's recoverable amount to be equal to its carrying amount.**
- 175. If some or all of the carrying amount of intangible assets with indefinite useful lives is allocated across multiple cash-generating units, and the amount so allocated to each unit is not significant in comparison with the entity's total carrying amount of intangible assets with indefinite**

useful lives, that fact shall be disclosed, together with the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units. In addition, if the recoverable amounts of any of those units are based on the same key assumption(s) and the aggregate carrying amount of intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

- (a) The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units.
- (b) A description of the key assumption(s).
- (c) A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
- (e) If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' carrying amounts to exceed the aggregate of their recoverable amounts:
 - (i) The amount by which the aggregate of the units' recoverable amounts exceeds the aggregate of their carrying amounts.
 - (ii) The value(s) assigned to the key assumption(s).
 - (iii) The amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' recoverable amounts to be equal to the aggregate of their carrying amounts.

176. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit may, in accordance with paragraph 145, be carried forward and used in the impairment test for that unit in the current period provided specified criteria are met. When this is the case, the information for that unit that is incorporated into the disclosures required by paragraphs 170 and 171 relate to the carried forward calculation of recoverable amount.

Transitional Provisions

- 177. This Standard shall be applied prospectively from the date of its application. Impairment losses (reversals of impairment losses) that result from adoption of this International Public Sector Accounting Standard shall be recognized in accordance with this Standard (i.e. in net surplus/deficit).**
178. 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 shall 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

- 179. An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after January 1, 20XX. Earlier application is encouraged. If an entity applies this Standard for an earlier period it shall disclose that fact.**
180. 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.