

TREASURER'S DIRECTIONS

ACCOUNTING – ASSETS

Section A2.10 : Impairment of Assets

STATEMENT OF INTENT

Annual asset impairment testing is undertaken to ensure that the value of Agency assets is not overstated. This Section explains asset impairment, and addresses the recognition and measurement of asset impairment adjustments.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Asset Impairment

- An asset is said to be impaired when the asset's carrying amount (net amount recorded in Agency financial statements) exceeds its recoverable amount.

Annual Asset Impairment Testing

- Agencies are to assess and document at each reporting date whether there is any indication that an Agency asset (or group of Agency assets delivering outputs) may be impaired.
- Where there is an indication that an Agency asset (or group of assets) may be impaired (or a previously recognised impairment loss may need to be reversed), the Agency is to estimate the recoverable amount of the asset (or group of assets) as the higher of depreciated replacement cost or fair value less costs to sell.

Recognition of an Impairment Loss

- An Agency is to reduce the carrying amount of an asset to its recoverable amount and recognise a corresponding asset impairment loss where one or more impairment indicators exist and the carrying amount of the asset exceeds the recoverable amount.
- An impairment loss in relation to an asset not subject to the revaluation model is to be recognised as an expense in the Operating Statement.
- An impairment loss in relation to an asset subject to the revaluation model is to be recognised as a revaluation decrease by: debiting the Asset Revaluation Reserve for the same class of assets, or raising an expense in the Operating Statement.

Reversal of an Impairment Loss

- Impairment losses recognised in prior years may be reversed in certain situations. Reference should be made to the detailed requirements in this Section prior to impairment loss reversals being processed.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards, and other authoritative interpretations.

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AUTHORITIES

Financial Management Act

REFERENCES

AASB 116	Property, Plant and Equipment
AASB 136	Impairment of Assets
AASB 139	Financial Instruments : Recognition and Measurement

Related Treasurer's Directions:

A1.1	Accounting – Assets : Accrual Accounting
A2.1	Accounting – Assets : Overview
A2.2	Accounting – Assets : Property, Plant and Equipment
A2.3	Accounting – Assets : Depreciation and Amortisation
A2.4	Accounting – Assets : Revaluation
A2.6	Accounting – Assets : Cash
A2.7	Accounting – Assets : Receivables
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WHAT IS ASSET IMPAIRMENT ?

A2.10.1

An asset is said to be impaired when the asset's carrying amount (net amount recorded in Agency financial statements) exceeds its recoverable amount.

(i) An asset is said to be impaired when its carrying amount (the amount at which an asset is recognised after deducting any accumulated depreciation and any accumulated impairment losses) exceeds its recoverable amount. Impairment only refers to impairment losses, not gains. Impairment may also be defined as the decline in the future economic benefits or service potential of an asset, over and above its use reflected through depreciation (where applicable).

(ii) The calculation of an impairment loss is shown in the formula below:

$$\begin{array}{|c|} \hline \text{Asset Impairment} \\ \hline \text{Loss} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Carrying Amount} \\ \hline \text{of the Asset} \\ \hline \end{array} \text{ less } \begin{array}{|c|} \hline \text{Recoverable Amount} \\ \hline \text{of the Asset} \\ \hline \end{array}$$

(iii) Accounting standards and this Treasurer's Directions Section require each Agency to assess Agency assets at each reporting date (as at 30 June) in order to ensure that these assets are carried at no more than their recoverable amount (that is, the value of Agency assets is not overstated). The impairment assessment process can be summarised as:

- (a) all Agency assets are assessed for indicators of impairment at each reporting date (30 June);
- (b) if indicators of impairment are evident for an asset (or group of assets utilised in the delivery of outputs), the recoverable amount of the asset (or group of assets) is calculated;
- (c) the recoverable amount is then compared to the carrying amount of the asset (or group of assets). Where the carrying amount of an asset exceeds the recoverable amount, an impairment loss is recognised equivalent to the difference; and
- (d) in addition, at each reporting date Agency assets for which an impairment loss was recognised in a prior period are assessed for indicators that the impairment loss may no longer exist or has decreased. Any such decrease a previously recognised impairment loss is recognised as an impairment reversal.

(iv) In practice, impairment will be assessed for materially significant assets on an individual basis and also for groups of Agency assets used in the delivery of Agency outputs.

Section A2.10 : Assets – Impairment of Assets

- (v) Impairment losses may result from a variety of events both within and outside an Agency's control. For example, where an Agency building is significantly damaged by fire immediately prior to 30 June, it is likely that the carrying amount of the building would exceed its recoverable amount at 30 June by a material amount. In such circumstances, the recoverable amount of the building should be calculated and compared to the carrying amount to determine the amount of any impairment loss. Other situations where impairment losses may occur include:
- the value of Agency land holdings has fallen subsequent to asset valuations of Agency land parcels being undertaken; and
 - costs of construction decline subsequent to Agency asset valuations being undertaken (applies to Agency assets valued at depreciated replacement cost).
- (vi) Agencies should be aware that the requirements in relation to impairment testing are relevant for all Agency assets. This Treasurer's Directions Section provides instruction and guidance in relation to annual asset impairment testing, indicators of impairment and the calculation and recognition of impairment losses for items of property, plant and equipment. Instruction and guidance in relation to impairment for other type of assets is provided in the following Treasurer's Directions Sections:
- A2.6 – Cash : for example, deficiencies in cash assets.
 - A2.7 – Receivables : bad and doubtful debts are a form of impairment loss.
 - A2.8 – Inventories: inventories (other than inventories held for distribution) are required to be recorded at the lower of cost or net realisable value.

ANNUAL ASSET IMPAIRMENT TESTING

A2.10.2

Agencies are to assess and document at each reporting date whether there is any indication that an Agency asset (or group of Agency assets delivering outputs) may be impaired.

- (i) Agencies are required to assess all Agency assets for impairment at each reporting date. Although this assessment is required to be 'as at 30 June', the assessment and documentation process can commence well prior to the end of the reporting period. Agency assets may be assessed on an individual basis, or may be assessed as a group, where a discrete group of assets is utilised in the delivery of Agency outputs.
- (ii) As an integral part of the annual impairment assessment process, Agencies are also required to document the impairment assessment process and the evidence supporting the assessment. In practice, this documentation would be structured on each material class of Agency assets and may utilise the assessment guidance provided in [Appendix A](#).

Section A2.10 : Assets – Impairment of Assets

- (iii) Annual asset impairment assessments should include consideration of internal Agency factors and external factors outside an Agency's control. Indicators that assets may be impaired include:
- evidence exists that the replacement cost (purchase cost or construction cost) has declined significantly (for assets valued at depreciated replacement cost);
 - evidence exists that an asset's market value (or fair value) has declined significantly more than would be expected as a result of normal use;
 - evidence is available of obsolescence and or physical damage to an asset (excluding minor wear and tear);
 - a decision is made to halt the construction of the asset before it is complete or is in a usable condition;
 - cessation of the demand or need for services provided by the asset where the asset is not suitable for providing other services;
 - significant long-term changes in the extent or manner in which an asset is used, or is expected to be used, with an adverse effect on the Agency;
 - evidence is available indicating that the performance of an asset is, or will be, significantly worse than expected;
 - significant long-term changes in the technological environment or technology utilised by the Agency, with an adverse effect on the Agency; and
 - significant long-term changes in the legal or government policy environment with an adverse effect on the Agency.

- (iv) Agencies should remain aware that the existence of impairment indicators is only the first step in assessing impairment and may not necessarily result in the recognition of an impairment loss. Further information in relation to impairment indicators and issues for consideration when undertaking annual asset impairment assessments may be found at [Appendix A](#).

A2.10.3

Where there is an indication that an Agency asset (or group of Agency assets) may be impaired, the Agency is to estimate the recoverable amount of the asset (or group of assets) as the higher of:

- **depreciated replacement cost; and**
- **fair value less costs to sell.**

- (i) In situations where there is an indication that an Agency asset (or group of assets) may be impaired, the Agency is required to estimate the recoverable amount of the asset (or group of assets). Although Agencies are required to calculate the recoverable amount as the higher of depreciated replacement cost and fair value less costs to sell the asset, it is not always necessary to determine both an asset's depreciated replacement cost and its fair value less costs to sell. The reason for this is that 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.

Section A2.10 : Assets – Impairment of Assets

- (ii) Furthermore, Agency assets that are valued at depreciated replacement cost would be unlikely to experience an impairment loss unless the cost of construction or replacement cost of that asset declined to a material extent since the last valuation of that asset. In practice, a majority of Agency building and infrastructure assets experience increases (rather than decreases) in construction costs and therefore increased replacement costs. Similarly, the value of most land assets recorded in Agency financial statements will remain constant, or experience increases in value from one reporting period to the next.
- (iii) The depreciated replacement cost of an asset is the current replacement cost of the asset's remaining service potential. Replacement cost does not necessarily represent the cost of replicating the asset as new, as only value of the remaining service potential of the asset is relevant. For example, the depreciated replacement cost of an item of equipment that is part way through its useful life, would be its purchase price (or cost of construction), less accumulated depreciation (calculated on the basis of service potential already consumed).
- (iv) Where it is not considered appropriate to value an asset at depreciated replacement cost (for example, where the asset would not be replaced if destroyed), determination of the fair value of an asset is the market price of the asset less selling costs that are directly attributable to asset disposal. The market price would be the best estimate of the price reasonably obtainable in the market.
- (v) In rare situations the fair market value of an Agency asset may not be able to be reliably estimated. In these cases, the recoverable amount of the asset will be the asset's value in use. An asset's value in use is the present value of future cash flows expected to be derived from an asset. As assets utilised by Agencies are generally held to meet service delivery objectives, rather than the generation of cash inflows, it may not be possible to reliably estimate future cash inflows associated with an asset, and the recoverable amount of the asset will be its depreciated replacement cost or best estimate of market value.
- (vi) Additional instruction and guidance in relation to asset valuation methods, including the fair value basis and depreciated replacement cost may be found in Treasurer's Directions Section A2.4.

A2.10.4

Agencies are to assess at each reporting date whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. Where such indications exist, Agencies are to estimate the recoverable amount of that asset.

- (i) The indicators of a potential decrease in a previously recognised impairment loss mirror the indications of a potential impairment loss. Therefore in assessing whether there is an indication that an impairment loss recognised in prior periods no longer exists or has decreased, Agencies may consider factors such as the following:
- evidence exists that a previous decline in the purchase, replacement or construction cost of an asset has reversed and that the cost of purchasing, replacing or constructing the asset has increased to a significant extent;
 - evidence exists that a previous decline in the market value of an asset has reversed and the asset's value has increased to a significant extent;
 - evidence is available that previous assessments of obsolescence or physical damage to an asset were significantly overstated, or no longer exist;
 - an earlier decision to halt the construction of an asset prior to completion has been reversed;
 - a decline in the demand or need for services provided by the asset no longer exists;
 - significant long-term changes in the extent or manner to which an asset is used, or is expected to be used have occurred, with a positive affect on the Agency;
 - significant long-term changes in the manner in which an asset is used, or is expected to be used have occurred, with a positive affect on the Agency;
 - significant long-term changes in the legal or government policy environment have occurred; and
 - evidence is available from internal reporting that indicates that the previous indication of the service performance of an asset is, or will be, significantly better off than expected.
- (ii) Agencies should remain aware that the existence of indications that a previously recognised impairment loss may have reversed, will not necessarily mean that a previously recognised impairment loss will be reversed in practice. The reversal of impairment losses is discussed later in this Treasurer's Directions Section.

RECOGNITION OF AN IMPAIRMENT LOSS

A2.10.5	<p>An Agency is to reduce the carrying amount of an asset to its recoverable amount and recognise a corresponding asset impairment loss where:</p> <ul style="list-style-type: none">• one or more impairment indicators exist, and• the carrying amount of an asset (or group of assets) exceeds the recoverable amount of the asset (or group of assets).
A2.10.6	<p>An impairment loss in relation to an asset not subject to the revaluation model is to be recognised as an expense in the Operating Statement.</p>
A2.10.7	<p>An impairment loss in relation to an asset subject to the revaluation model is to be recognised as a revaluation decrease by:</p> <ul style="list-style-type: none">• debiting the Asset Revaluation Reserve for the same class of asset to the extent that the impairment loss does not exceed the balance of the Asset Revaluation Reserve for that same class of asset; or• raising an impairment loss expense in the Operating Statement for other amounts.

- (i) Where impairment indicators exist and the carrying amount of an asset (or group of assets) exceeds the recoverable amount of that asset (or group of assets), an Agency is required to reduce the carrying amount of the asset to its recoverable amount and recognise a corresponding asset impairment loss. The carrying amount of an asset is the net amount at which an asset is recognised in an Agency's accounting records after deducting any accumulated depreciation (for depreciable assets) and any accumulated impairment losses.
- (ii) Accounting for an impairment loss will depend on whether the asset is subject to the cost model or the revaluation model and whether a balance exists in the Asset Revaluation Reserve for that class of asset (revaluation model assets only). Treasurer's Directions Section A2.4 provides further instruction and guidance in relation to asset measurement, including the cost model and the revaluation model.
- (iii) An impairment loss in relation to an asset not subject to the revaluation model will be recognised as an expense in the Operating Statement. In practice, such impairment losses will be recognised under 'Asset Expenses' in the Standard Classification Codes.
- (iv) An impairment loss in relation to an asset subject to the revaluation model will be treated as a revaluation decrease and will be debited to the Asset Revaluation Reserve for that class of asset. However, impairment adjustments charged to the Asset Revaluation Reserve may only be made up to the balance of the Asset Revaluation Reserve for that class of asset. Amounts in excess of the balance of the Asset Revaluation Reserve for that class of asset will be recognised as an expense in the Operating Statement.

Section A2.10 : Assets – Impairment of Assets

- (v) The following example summarises the accounting treatment of an impairment loss for an asset subject to the revaluation model where the balance in the Asset Revaluation Reserve only partially covers the total impairment loss:

Impairment Loss (Reduction in Carrying Amount)	(a)	\$50,000
Asset Revaluation Reserve balance for that asset class	(b)	<u>\$20,000</u>
Impairment Loss Expense (a less b)		\$30,000

- (vi) Treasurer's Directions Section A2.4 provides instruction and guidance in relation to revaluation decrements, while Appendix B provides a flowchart and detailed examples in relation to accounting for impairment losses.
- (vii) In rare circumstances the impairment loss may exceed the carrying amount of an Agency asset. In these situations, the carrying amount of the asset will be reduced to zero and a liability for any remaining impairment loss will only be recognised where the definition and recognition criteria for a liability are met. For example, the Agency has a clear obligation to restore a site upon which an Agency asset is located, the cost of restoration can be reliably measured, and the liability has not previously been recognised.
- (viii) In practice Agencies would not recognise insignificant impairment adjustments. Agencies will therefore need to be aware of the administrative costs of identifying, measuring and recognising small impairment losses and should also take account of the materiality of any impairment losses identified (individually and in aggregate).
- (ix) Regardless of the way an impairment loss is accounted for, Agencies will adjust the calculation of future depreciation charges for affected assets based on revised carrying amounts. Treasurer's Directions Section A2.3 provides instruction and guidance in relation to depreciation.
- (x) Some impairment losses may also meet the definition of a write-off for the purposes of the *Financial Management Act*. In these situations write-off approval requirements under the *Financial Management Act* continue to apply. Treasurer's Directions Section A2.2 provides further instruction and guidance in relation to asset write-offs for items of property, plant and equipment. Where uncertain as to whether an impairment adjustment falls under the write-off accountability requirements, Agencies should have regard to the *Financial Management Act*, related Treasurer's Directions, and may seek further advice from Treasury.

REVERSAL OF AN IMPAIRMENT LOSS

A2.10.8

An Agency is to increase the carrying amount of an asset to its recoverable amount and recognise a corresponding reversal of a previously recognised impairment loss where there:

- is an indication that a previously recognised impairment loss may no longer exist, or may have decreased; and
- has been a change in the estimates used to determine the recoverable amount of the asset since the last impairment loss was recognised against that asset.

The increase in carrying amount and corresponding reversal of an impairment loss is not to exceed the value of impairment losses previously recognised for that asset.

A2.10.9

The reversal of an impairment loss related to an asset not subject to the revaluation model is to be recognised as income in the Operating Statement.

A2.10.10

The reversal of an impairment loss in relation to an asset subject to the revaluation model is to be recognised as a revaluation increase by crediting:

- as income, an amount equivalent to any impairment losses previously charged to the Operating Statement for that class of asset; or
- the Asset Revaluation Reserve for the same class of assets for other amounts.

- (i) Situations may also occur where an impairment loss (or losses) recognised against an Agency asset in a prior reporting period is required to be reversed in whole or in part. A reversal of a previously recognised impairment loss reflects an increase in the estimated service potential of an asset, either from continuing use, or from sale, since the date when an Agency last recognised an impairment loss for that asset.
- (ii) In assessing whether there are indications that an impairment loss recognised in prior periods no longer exists or has decreased, Agencies should consider the indicators identified at Treasurer's Direction A2.10.4. Where evidence exists that the impairment loss recognised in prior periods no longer exists or has decreased, the Agency is required to estimate the recoverable amount of that asset.
- (iii) If the change in the estimate used to determine the asset's recoverable amount has resulted in the recoverable amount being greater than the carrying amount then the carrying amount will be increased to its recoverable amount. However, any such increase in the carrying amount of the asset is not to exceed the value of previously recognised impairment losses for that asset.
- (iv) As with accounting for impairment losses, accounting for impairment loss reversals will depend on whether the asset is subject to the cost model or the revaluation model, and whether any impairment losses for the same class of asset have been previously charged to the Operating Statement.

Section A2.10 : Assets – Impairment of Assets

- (v) The reversal of an impairment loss in relation to an asset subject to the cost model (that is, assets valued at cost) will be recognised as income in the Operating Statement. In practice, such reversals will be recognised under 'Asset Income'.
- (vi) The reversal of an impairment loss in relation to an asset subject to the revaluation model will be recognised as income in the Operating Statement for an amount equivalent to any impairment losses previously charged to the Operating Statement for that class of asset. Other impairment loss reversals will be recognised as a revaluation increase and will be credited to the Asset Revaluation Reserve for that class of asset.
- (vii) In rare situations, the identified increase in asset value may be greater than the carrying amount had the impairment loss (or losses) not been recognised in prior years. If this is the case then the increase is considered to be a revaluation increase and where material, will be accounted for as a revaluation increment in accordance Treasurer's Directions Section A2.4. This is expected to occur in rare circumstances.
- (viii) Regardless of the way in which an impairment loss reversal is accounted for, Agencies will adjust the calculation of future depreciation charges for affected assets based on revised carrying amounts. Treasurer's Directions Section A2.3 provides instruction and guidance in relation to depreciation.
- (ix) Appendix C of this Treasurer's Directions Section provides a flowchart and detailed examples in relation to accounting for the reversal of a previously recognised impairment loss (or losses).

DISCLOSURE OF ASSET IMPAIRMENT INFORMATION

A2.10.11

Agencies are to ensure that complete and accurate information in relation to impairment assessments, the recognition of impairment losses, and the reversal of any impairment losses is available for Agency financial reporting purposes.

- (i) Information in relation to material impairment adjustments is required to be disclosed in Agency financial statements. Impairment information required to be disclosed in Agency financial statements includes the following:
 - the amount of any impairment losses recognised as expenses in the Operating Statement or directly in the Asset Revaluation Reserve during the period;
 - the amount of reversals of impairment losses recognised as income in the Operating Statement or directly in the Asset Revaluation Reserve during the period;
 - for each material impairment loss recognised or reversed during the period a description of event and circumstances that led to the recognition or reversal of the impairment loss; and
 - a description of the basis for determining recoverable amount as either fair value less costs to sell or depreciated replacement cost.
- (ii) The Reporting Series of Treasurer's Directions provides detailed instruction and guidance in relation to Agency financial reporting requirements, including impairment.

IMPAIRMENT INDICATORS BY NON-CURRENT ASSET CLASS

This Appendix provides examples of impairment indicators that may apply to Agency assets. Agencies should remain aware that while an impairment indicator may exist, the asset may not be impaired in practice. Where an impairment indicator exists Agencies are required to estimate the recoverable amount of the asset to determine if the asset is impaired.

Refer to Appendix B for guidance in relation to the identification and recognition of impairment losses and Appendix C for guidance in relation to the reversal of impairment losses.

LAND

Evidence exists that an asset's market value (or fair value) has declined significantly more than would be expected since the last valuation of that land.

Example 1: Recent land values undertaken in the area indicate that parcels of land of a similar size and position to those held by the Agency have fallen in value by between 10% and 15% since the last revaluation of those Agency land parcels.

Example 2: Land held for sale (currently valued at net market value) in an industrial area was found to be contaminated. The surrounding land was also contaminated and based on recent market-based evidence the market value for the land has fallen significantly.

BUILDINGS

Evidence exists that the replacement cost (construction cost) has declined significantly.

Information obtained from independent valuations of other building assets in the region where the Agency holds building assets indicates that the introduction of a major new construction company has resulted in a significant reduction in the cost of constructing (replacing) Agency buildings in the region since the last valuations of those Agency buildings were undertaken.

Cessation of the demand or need for services provided by the asset.

The demand for the service has ceased and a Government decision has been made to dispose of the asset. For example:

As at 30 June it was discovered that a school was to be closed because of a lack of demand for school services arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future and Government has made and formally announced its decision to sell the asset.

APPENDIX A (continued)

Significant long-term changes in the legal or Government policy environment which has an adverse affect on the Agency.

An asset's service potential may be reduced as a result of a change in a law or regulation. For example, as at 30 June it was discovered that a school can no longer be used for educational purposes due to new safety regulations regarding building materials (for example, asbestos was found). In addition, the school in its current form cannot be used to provide other Government services.

Evidence is available of physical damage of an asset.

Physical damage would more likely result in the asset being unable to provide the level of service that it once was able to provide and decision was made not to replace/repair the asset. For example:

- building damaged by fire or flood or other factors.
- building closed due to identification of structural deficiencies.

Significant long-term changes in the manner in which an asset is used, or is expected to be used, which has an adverse effect on the Agency.

If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. For example, a school building that is no longer suitable for educational purposes and instead can only be used for storage purposes.

INFRASTRUCTURE

Evidence exists that the replacement cost (construction cost) has declined significantly.

The recent introduction of a new construction process for infrastructure held by the Agency has been shown to significantly reduce the construction cost of Agency infrastructure. This new construction process and the resultant savings is a new development since the last valuations of Agency infrastructure assets were undertaken.

Cessation of the demand or need for services provided by the asset.

Due to heavy flooding over the years, an Agency had discovered that a bridge in a remote area required a lot of repair work however a decision was made to close the bridge due to the lack of demand for the use of the bridge.

Significant long-term changes in the legal or government policy environment which has an adverse affect on the Agency.

An asset's service potential may be reduced as a result of a change in a law or regulation. For example, a water treatment plant cannot be used because it does not meet new environmental standards.

APPENDIX A (continued)

Evidence is available of physical damage of an asset.

Physical damage would more likely result in the asset being unable to provide the level of service that it once was able to provide. For example:

- sections of an elevated roadway that have sagged, indicating that a segment of roadway will need to be replaced in 15 years rather than the original design life of 30 years.
- a bridge is weight-restricted due to identification of structural deficiencies.

CONSTRUCTION (WORK IN PROGRESS)

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

An asset that will not be completed cannot provide the service intended. For example:

- construction was stopped due to identification of an archaeological discovery or environmental condition such as nesting ground for a threatened or endangered species.
- construction was stopped due to a significant reduction in demand for the outputs delivered by that asset.

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

PLANT AND EQUIPMENT

Evidence exists that the replacement cost (purchase cost) has declined significantly.

Recent information obtained from key plant and equipment suppliers has indicated that the introduction of new technology has resulted in a significant reduction in the cost of purchasing (replacing) key Agency plant and equipment items.

Significant long-term changes in the technological environment that have an adverse effect on the Agency.

The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. For example:

- medical diagnostic equipment is rarely or never used because a newer machine embodying more advanced technology provides more accurate results.
- computer hardware has become obsolete as the result of technological development.

APPENDIX A (continued)

Significant long-term changes in the legal or government policy environment have an adverse effect on the Agency.

An asset's service potential may be reduced as a result of a change in a law or regulation. For example, an automobile does not meet new emission standards or a plane that does not meet new noise standards

Evidence is available of physical damage of an asset.

Physical damage would more likely result in the asset being unable to provide the level of service that it once was able to provide. For example, equipment is damaged and can no longer be repaired or for which repairs are not economically feasible.

Significant long-term changes in the extent to which an asset is used, or is expected to be used, have an adverse effect on the Agency.

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

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

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

INTANGIBLES

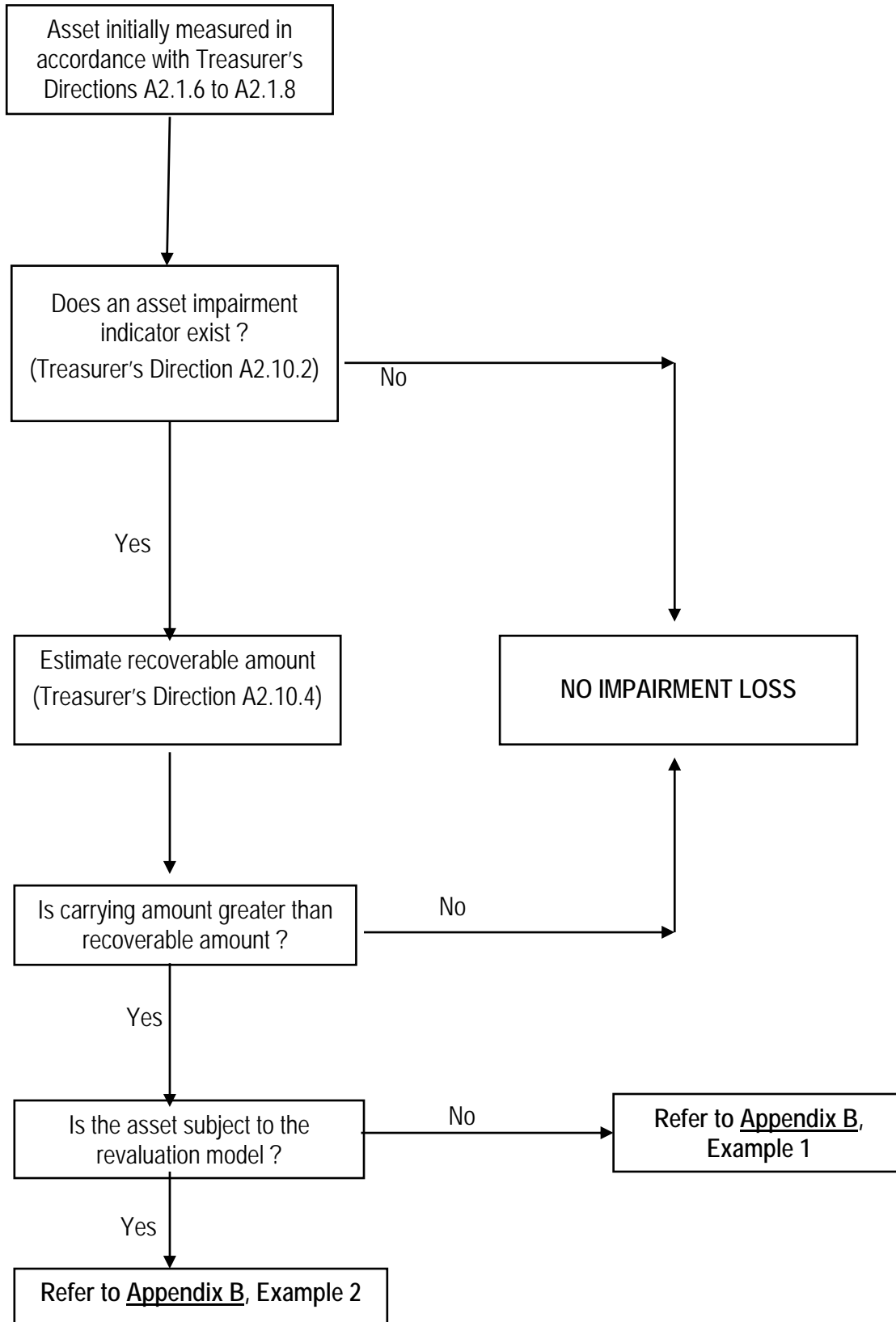
Evidence exists that the replacement cost (purchase cost) has declined significantly.

Recent information obtained from the supplier of Agency intangible assets has indicated that the introduction of new technology has resulted in a significant reduction in the cost of purchase (replacement).

Significant long-term changes in the technological environment have an adverse effect on the Agency.

The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. For example, software is no longer being supported by the external supplier because of technological advances and the Agency does not have the personnel to maintain the software.

IDENTIFICATION AND RECOGNITION OF AN IMPAIRMENT LOSS



IDENTIFICATION AND RECOGNITION OF AN IMPAIRMENT LOSS

Example 1 – Accounting for an impairment loss on a non-revalued asset:

An Agency previously recognised equipment that cost \$20,000 (GST exclusive). The asset is currently two years old and has a ten year useful life. As at 30 June it is identified that an environmental law had been passed banning the use of this type of asset. As a result of the law, the asset has effectively become obsolete overnight and can only be sold for a scrap value of \$1,000. The relevant asset is measured at cost (not subject to the revaluation model).

	Carrying Amount	Recoverable Amount
Cost of Equipment	\$20,000	\$1,250
<i>Less: Accumulated Depreciation (2/10 years)</i>	<u>(\$ 4,000)</u>	<u>(\$ 250)</u>
Carrying Amount (a)	\$16,000	
Recoverable Amount (b)		\$1,000
Impairment Loss (b less a) =		(\$15,000)

The journal entry for this is as follows:

DR	Asset Impairment Loss	(Increase in Expenses - Operating Statement)	\$15,000
DR	Accumulated Depreciation Plant & Equipment – Impairment Adjustments	(Decrease in Contra Asset - Balance Sheet)	\$3,750
CR	Plant and Equipment	(Decrease in Assets - Balance Sheet)	\$18,750

Example 2 – Accounting for an impairment loss on a revalued asset (revaluation increment):

A mine in a remote community had closed down which has resulted in a decline in population and hence a decline in the need for government services. An Agency has five employee houses in the remote area. The following information is used to assist in determining whether these houses were impaired:

- the carrying amount for each house is \$200,000;
- as an active market exists the Agency measures the houses at net market value (\$150,000 each); and
- the current balance in the Asset Revaluation Reserve for the buildings asset class is \$300,000.

Section A2.10 : Assets – Impairment of Assets

APPENDIX B (continued)

	Carrying Amount	Recoverable Amount
Fair Value	\$1,250,000	\$937,500
<i>Less: Accumulated Depreciation</i>	(\$250,000)	(\$187,500)
Carrying Amount (a)	\$1,000,000	
Recoverable Amount (b)		\$750,000
Impairment Loss (b less a) =		(\$250,000)

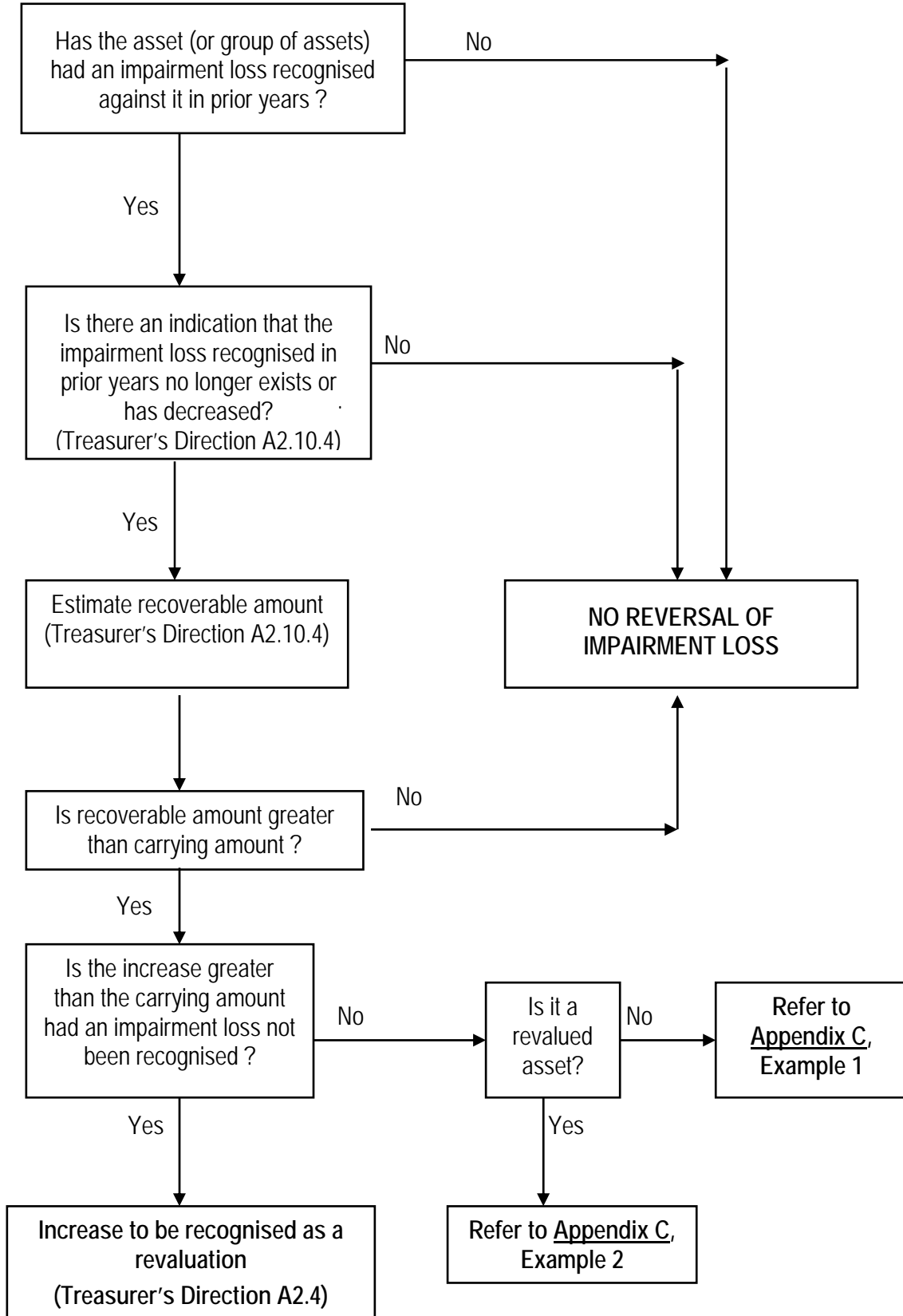
The journal to record the above impairment loss is as follows:

DR	Asset Revaluation Reserve – Buildings - Impairment Loss	(Decrease in Equity - Balance Sheet)	\$250,000
DR	Accumulated Depreciation – Buildings - Impairment Adjustments	(Decrease in Contra Asset - Balance Sheet)	\$ 62,500
CR	Buildings	(Decrease in Assets - Balance Sheet)	\$312,500

Note: If the Asset Revaluation Reserve for the class of building assets had a balance of \$100,000, the impairment loss would be accounted for as follows:

DR	Asset Revaluation Reserve – Buildings - Impairment Loss	(Decrease in Equity - Balance Sheet)	\$100,000
DR	Asset Impairment Loss	(Increase in Expenses - Operating Statement)	\$150,000
DR	Accumulated Depreciation – Buildings - Impairment Adjustments	(Decrease in Contra Asset - Balance Sheet)	\$ 62,500
CR	Buildings	(Decrease in Assets - Balance Sheet)	\$312,500

REVERSAL OF AN IMPAIRMENT LOSS



REVERSAL OF AN IMPAIRMENT LOSS

Example 1 – Accounting for a reversal on an impairment loss on a non-revalued asset:

This example provides for the reversal of an impairment loss using the information below and the information contained in Appendix B - Example 1.

In the following year it is discovered that a local company is able to undertake specialised works on the equipment to ensure compliance with the new environmental laws. The following information is used to assess if the impairment loss previously recognised by the Agency in a prior period no longer exists:

- the cost to replace the equipment is \$10,000 compared to \$30,000 for the purchase of a new asset;
- the carrying amount of each asset is \$1,000;
- the replacement cost of the asset is estimated to be \$15,000 (this is the value that the local company is selling reconditioned equipment of similar functionality);
- the above indicates that the impairment loss previously recognised by the Agency in a prior period no longer exists;
- as \$10,000 has already been spent on works to the equipment, \$4,000 is recognised as the reversal of an impairment loss from a prior period (refer calculation below); and
- the increase in recoverable amount is not greater than the carrying amount had an impairment loss not been recognised.

	Carrying Amount	Recoverable Amount
Cost of Equipment	\$1,000	\$15,000
Additional Capital Expenditure	\$10,000	
<i>Less: Accumulated Depreciation</i>	-	-
Carrying Amount (a)	\$11,000	
Recoverable Amount (b)		\$15,000
Reversal of Impairment Loss (b less a) =		(\$4,000)

The journal entry for the reversal of the impairment loss recognised in Appendix B – Example 1 is as follows:

DR	Plant and Equipment	(Increase in Assets - Balance Sheet)	\$14,000
CR	Cash at Bank	(Decrease in Assets - Balance Sheet)	\$10,000
CR	Asset Impairment Reversal	(Increase in Income - Operating Statement)	\$4,000

APPENDIX C (continued)

Example 2 – Accounting for a reversal of an impairment loss on a revalued asset (revaluation increment):

This example provides for the reversal of an impairment loss using the information provided below and the information contained in Appendix B - Example 2.

The following information is used to assess if the impairment loss previously recognised by the Agency in a prior period no longer exists:

- two years later the mine in the remote community is re-opened due to a discovery of a valuable mineral deposit. This has resulted in an increase in the population shift over the last two years which has had a significant impact on the housing market in the area;
- the houses were valued at the end of the reporting period using net market value, which resulted in values of \$160,000 each; and
- the above information indicates that the previously recognised impairment loss no longer exists therefore a reversal of the previously recognised impairment loss is appropriate.

Based on the above information the amount of the reversal of the impairment loss would be:

	Carrying Amount	Recoverable Amount
Fair Value of the Asset	\$937,500	\$1,214,286
<i>Less: Accumulated Depreciation</i>	\$281,250	\$364,286
Carrying Amount (a)	\$656,250	
Recoverable Amount (b)		\$850,000
Reversal of Impairment Loss (b less a) =		\$193,750

The increase is considered to be a reversal of a previous impairment loss and is recognised as a revaluation increase in the Asset Revaluation Reserve. The journal entry for this is as follows:

DR	Buildings	(Increase in Assets - Balance Sheet)	\$276,786
CR	Asset Revaluation Reserve – Buildings	(Increase in Equity - Balance Sheet)	\$193,750
CR	Accumulated Depreciation – Buildings - Impairment Adjustments	(Increase in Contra Asset - Balance Sheet)	\$83,036

Note – If the impairment losses from prior periods were previously recognised in the Operating Statement, then the reversal of the impairment loss would be accounted for as follows:

DR	Buildings	(Increase in Assets - Balance Sheet)	\$276,786
CR	Accumulated Depreciation – Buildings Impairment Adjustments	(Increase in Contra Asset - Balance Sheet)	\$83,036
CR	Asset Impairment Reversal	(Increase in Income - Operating Statement)	\$193,750