Guidance document – Impairment of assets

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| Acronyms | Full form |
| DCDD | Department of Corporate and Digital Development |
| DIPL | Department of Infrastructure, Planning and Logistics |
| DTF | Department of Treasury and Finance  |
| FMA | *Financial Management Act 1995* |
| NT | Northern Territory |
| TD | Treasurer’s Direction |

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| Acknowledgements |
| This document draws upon and or reproduces information contained in the following publications:* *Non-Current Asset Policies for the Queensland Public sector, The State of Queensland (Queensland Treasury) June 2022*
* AASB 136 Impairment of assets
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# Introduction

## Purpose

To provide better practice guidance to assist accountable officers and agencies meet their obligations under the Treasurer’s Direction (TD) – Non-financial assets, the *Financial Management Act 1995* (FMA)*,* and other relevant legislation.

Guidance material in this document is not mandatory. If a conflict arises between this guidance document and TD or other legislative requirements, the legislation takes precedence followed by the TD.

The TD generally designates responsibility to the accountable officer. Unless specifically excluded by the FMA or TD, accountable officers may choose to delegate certain responsibilities and functions to agency employees. This can be done through a number of mechanisms, such as accountable officer approved policies, procedures and agency delegations.

## Statement

The objectives of the TD – Non-financial assets and this guide is to establish minimum requirements for conducting an assessment on impairment indicators for an asset and testing for impairment, where applicable. This guidance document applies to all agencies including government business divisions**.**

Agencies are strongly encouraged to ensure all employees involved in the agency annual financial reporting process have access to this guide.

## Legislative basis and related documents

* FMA
* Treasurer’s Directions - Non-financial assets
* Treasurer’s Directions – Losses, write offs, waivers and postponement
* Australian Accounting Standards:
	+ AASB 13 Fair Value Measurement (AASB 13)
	+ AASB 116 Property, Plant and Equipment (AASB 116)
	+ AASB 136 Impairment of Assets (AASB 136)
	+ AASB 138 Intangible assets (AASB 138)

# What is asset impairment?

An asset is said to be impaired when it’s 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 or amortisation (where applicable).

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 but are not limited to:

* the value of agency’s land holdings has fallen subsequent to a revaluation due to the discovery of contaminants on the land
* decline in construction costs subsequent to a revaluation process (would only apply if assets are valued using the current replacement cost approach).

## Impairment assessment requirements

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| Non-financial assets must to be tested for impairment:* 1. annually for intangible assets with an indefinite useful life
	2. annually intangible assets not yet available for use (under development) that are materially significant or
	3. only where an impairment indicators exist, for all other non-financial assets.

Accountable officers must at a minimum assess all materially significant non-financial assets annually at 30 June for the following impairment indicators:* natural disasters
* fire
* any other indicators that the agency considers significant or material.
 |

With the exception of the intangible assets described above, agencies only have to test a non-financial asset for impairment if an indicator of impairment exists.

Further guidance in identifying indicators of impairment is provided in section 3.2 below.

Agencies must document the process and outcome of the asset impairment assessment, the recognition of impairment losses, and the reversal of any impairment losses.

### Materiality

Agencies may apply materiality in determining the scope of assets to assess for impairment indicators and test for impairment. In practice, impairment will be assessed for materially significant assets on an individual basis and for material groups of agency assets used in the delivery of agency outputs.

For example, where the total value of an agency’s assets in a class is immaterial, compared to the total balance of property, plant and equipment, the agency has discretion on whether or not to assess for impairment indicators for those assets.

For intangible assets subject to impairment testing, agencies may set a materiality threshold and only test assets above the threshold. In setting the threshold, the total amount subject to a test should be a significant portion of the total intangible asset balance.

Where assets are tested for impairment and the total change in the written down value for the class of assets or the total impact on depreciation for the class of assets is material, the impairment loss must be recorded in the financial records.

Agencies must document key judgements and assumptions used in materiality assessments in the agency’s internal policy on non-financial asset measurement and valuation.

# Impairment assessment process

## Overview

|  |
| --- |
| **Step 4: Assess for impairment reversal**Agency to assess for indicators that the impairment loss no longer exists or has decreased. Any adjustment is recognised as an impairment reversal.**Step 1: Identify indicators of impairment**Assess materially significant assets for indicators of impairment at 30 June.**Step 2: Estimate recoverable amount**If indicators of impairment are evident, determine the recoverable amount.**Step 3: Compare carrying amount and recoverable amount**Carrying amount > recoverable amount: recognise impairment lossCarrying amount < recoverable amount: do nothing |

Each step in the impairment assessment process is discussed further in the sections below.

Agencies must document the impairment assessment process and retain evidence supporting assessments undertaken.

## Identify indicators of impairment

Agencies are required to assess materially significant assets for the minimum indicators of impairment outlined in section 2.1 at each reporting date. Although this assessment is required ‘as at 30 June’, the assessment and documentation process should commence prior to the end of the reporting period.

In addition to minimum impairment indicators outlined in section 2.1, annual assessment for other impairment indicators may include consideration of **interna**l agency factors and **external** factors outside an agency’s control.

Agencies should also assess whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased.

Agency assets may be assessed on an individual basis, or may be assessed as a group.

The table below provides a summary of other indicators that assets may be impaired or indicators that a previous impairment loss may no longer exist.

 Examples of indicators that assets may be impaired include:

|  |  |
| --- | --- |
| Indicators that assets may be impaired | Indicators of previous impairment loss may no longer exist or have decreased |
| * evidence is available of obsolescence and or physical damage to an asset (excluding minor wear and tear, for example, damaged by fire, earthquake, flood, contamination)
 | * evidence is available that previous assessments of obsolescence or physical damage to an asset were significantly overstated
 |
| * evidence exists that the replacement cost (purchase cost or construction cost) has declined significantly (for assets valued at current replacement cost)
 | * 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 an asset's market value (or fair value) has declined significantly more than would be expected as a result of normal use
 | * 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
 |
| * a decision is made to halt the construction of the asset before it is complete or is in a usable condition
 | * an earlier decision to halt the construction of an asset prior to completion has been reversed
 |
| * cessation of the demand or need for services provided by the asset where the asset is not suitable for providing other services
 | * 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 in which an asset is used, or is expected to be used, with an adverse effect on the agency
 | * 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 effect on the agency
 |
| * evidence is available indicating that the performance of an asset is, or will be, significantly worse than expected
 | * 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
 |
| * significant long-term changes in the technological environment or technology utilised by the agency, with an adverse effect 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 effect on the agency
 |
| * significant long-term changes in the legal or government policy environment with an adverse effect on the agency
 | * significant long-term changes in the legal or government policy environment have occurred
 |

Refer to **APPENDIX A – Examples of impairment indicators** for further details on the impairment indicators identified above.

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 or reversal of impairment loss.

### Land assets

Agencies may refer to the Northern Territory Environment Protection Authority website for a [list of contaminated land](https://ntepa.nt.gov.au/your-business/public-registers/contaminated-land-audits) in the Northern Territory, which may assist in assessing whether an impairment indicator exists, for land assets.

### Assets maintained and managed by Department of Infrastructure, Planning and Logistics (DIPL)

For non-financial assets maintained and managed by DIPL, DIPL will circulate a report prior to 30 June to agencies, which contains a list of agency assets impacted by a natural disaster or fire during the financial year. The report will also identify any estimated costs to repair or replace the damage to the assets. Agencies may use information in this report as a starting point for assessing how much and whether an impairment loss should be recognised, if any. Other factors an agency may consider in this assessment is the extent or level of physical damage sustained by the agency’s assets.

Agencies must assess the information provided by DIPL to determine whether an impairment loss adjustment is required to an asset or class of assets, taking into consideration if repairs have already been completed at 30 June, and any other relevant considerations.

Contact details for the DIPL Infrastructure Planning Operational Support (IPOS) team is provided below:

Email: IPOS.AdminCoordination@nt.gov.au

## Estimate recoverable amount

The recoverable amount of an asset or a cash-generating unit is the higher of:

|  |  |
| --- | --- |
| Value in use | Fair value less costs of disposal |
| ***Value in use*** is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. | ***Fair value less costs of disposal***is the amount obtainable from the sale of an asset or cash-generating unit in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal. ***Costs of disposal*** are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense. |

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash-generating units are generally not applicable to agencies because agency assets are typically not held for cash inflows.

It is not always necessary to determine an asset’s value in use and its fair value less costs of disposal. This is because if either of these amounts exceed the asset’s carrying amount, the asset is not impaired and hence it is not necessary to estimate the other amount.

### How to determine recoverable amount?

Most agency assets are specialised assets and held to meet service delivery objectives, rather than generation of cash inflows. Therefore, the recoverable amount is generally based on the fair value less costs of disposal.

Given these assets are rarely sold; the cost of disposal is typically **negligible**. The recoverable amount of such assets is expected to be materially the same as fair value, determined under AASB 13 Fair Value Measurement.

#### Assets measured under the revaluation model

The recoverable amount of assets measured under the revaluation model is expected to be materially the same as fair value determined under AASB 13 Fair Value Measurement. Consequently, any impairment losses are effectively captured through the revaluation process.

However, where indicators exist that an asset has experienced a material reduction in service capacity due to significant damage (such as damages by fire, contamination or natural disasters) and any other indicator specific to the agency since the last revaluation, the fair value of the asset should be reviewed and, if required, revalued downwards.

For assets maintained and managed by DIPL on behalf of agencies (such as building and infrastructure assets), agencies may seek information on estimates of costs to repair or replace damages to the asset from DIPL. See section 3.2.2 for further details on how to obtain this information. Agencies may use this information as a starting point in determining an asset’s recoverable amount. Other factors to consider may include the extent of physical damage to the agency’s assets.

#### Assets measured under the cost model

Most agency assets are held to meet service delivery objectives, rather than for the generation of cash inflows, as such, the recoverable amount should be determined using the fair value method. To determine the recoverable amount of the asset using the fair value less cost of disposal method, agencies may consider the current replacement cost or market value approaches.

##### Applying the fair value method

Agencies may apply the following to determine the fair value of an asset, where applicable:

Agencies must consider procurement rules prior to undertaking any of these actions:

|  |  |
| --- | --- |
| Scenario | Fair value |
| Agency ceased using an asset and a decision was made not to re-use or replace the asset (either in its current location, another location or with another agency) | Market value or the scrap value on disposal. Examples of sources for this information may include:* quotes from a third party buyer in its current state (i.e. scrap value or market value).
* estimates from DCDD of the value of asset in its current state for computer software or hardware
 |
| Agency ceased using an asset but the service potential/capacity of the asset will be replaced (including in another location or with another agency) | Current replacement cost or market value approach. Examples of sources for this information may include:* quotes for the purchase of a similar asset from the supplier of the asset
* quotes from a third party buyer in its current state.
* estimates from DCDD of the value of asset in its current state for computer software or hardware
 |
| Agency ceased using the asset and no decision has been made regarding re-use, replacement or redeployment of the service potential/capacity of the asset | Agency to assess the appropriate fair value taking into consideration the following factors:* likelihood of replacing or repairing the asset
* prospects of alternative use by another agency or third party.
 |

## Compare carrying amount and recoverable amount

If an impairment indicator exists and the agency has estimated the recoverable amount, the agency should compare the carrying amount of the asset to its recoverable amount.

* **Carrying amount > recoverable amount:** recognise impairment loss
* **Carrying amount < recoverable amount:** no further action is required

### Accounting for impairment loss

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

|  |
| --- |
| Impairment lossCarrying amountRecoverable amount |

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).

For assets subject to the **cost model**:

* impairment loss is recognised as an **expense** in the Comprehensive Operating Statement.

For assets subject to the **revaluation model**, impairment loss is recognised:

* as a revaluation decrease by 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** recognise an **impairment loss** **expense** in the Comprehensive Operating Statement for other amounts.

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 over its remaining useful life.

Refer to [Appendix B](#_APPENDIX_B_–) for a flowchart and detailed examples on how to identify and recognise an impairment loss.

### Write-off vs impairment

It is important to differentiate between a write off under the FMA and impairment of assets, which is an accounting standard requirement. This is because each process has differing approval processes.

The key difference between a write off and an impairment is, the write off permanently removes the asset from the financial records and asset register of an agency whereas an impairment only reduces the value of an asset (sometimes to nil) due to a decline in asset value arising from the existence of impairment indicators.

A **write-off** is the removal of property from the accounting records of the Territory or agency under section 35(1) (c) of the FMA.

Some key conditions, which may result in the removal of property from the financial records and asset register of an agency, include but is not limited to:

* asset is lost and cannot be recovered
* asset is deficient, condemned, unserviceable, abandoned or obsolete.

Refer to [Treasurer’s Directions – Losses, write off, waivers and postponement](https://treasury.nt.gov.au/dtf/financial-management-group/treasurers-directions#Accounting) for more information on the approval process to write off property.

An **impairment** is the decline in the future economic benefits or service potential of an asset, over and above its use reflected through depreciation or amortisation. An impairment arises where the carrying amount of an asset is less than the recoverable amount of the asset and may be due to:

* physical damage to an asset
* a change in market or economic conditions
* assets not functioning at capacity
* other factors which result in the decline of the value of the asset above normal wear and tear.

The recognition of impairment losses and their reversal are carried out in accordance with agency internal approval processes.

As such, a write-off will generally occur where the asset needs to be permanently removed from the financial records and asset register of an agency. In some instances, an asset may need to be impaired due to indicators and then subsequently written off to remove the asset from the agency’s financial records.

## Assess for impairment reversal

Situations may arise where an impairment loss (or losses) recognised against an asset in a prior reporting period may need 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 an agency last recognised an impairment loss for that asset.

An agency should 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
* there 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.

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. The increase in carrying amount and corresponding reversal of an impairment loss cannot exceed the:

* value of impairment losses previously recognised for that asset, and
* carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

For assets subject to **cost model**:

* the reversal of impairment loss is recognised as **income** in the Comprehensive Operating Statement.

For assets subject to **revaluation model**, reversal of impairment loss is recognised:

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

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. This is expected to occur in rare circumstances.

Regardless of the way in which an impairment loss reversal is accounted for, agencies should adjust the calculation of future depreciation charges for affected assets based on revised carrying amounts over its remaining useful life.

Refer to [Appendix C](#_APPENDIX_C_–) for a flowchart and detailed examples on accounting for the reversal of a previously recognised impairment loss (or losses).

# Disclosure of asset impairment information

Agencies should ensure that complete and accurate information for impairment assessments, recognition and reversal of impairment losses is available for agency financial reporting purposes.

Information on material impairment adjustments should be disclosed in agency financial statements. Impairment information disclosed in agency financial statements may include the following but is not limited to:

* the amount of any impairment losses recognised as expenses in the Comprehensive Operating Statement or directly in the Asset Revaluation Reserve during the period
* the amount of reversals of impairment losses recognised as income in the Comprehensive 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
* how the recoverable amount was determined (that is either using the fair value less costs to dispose or value in use method).

Agencies should refer to [AASB 136 Impairment of Assets](https://www.aasb.gov.au/admin/file/content105/c9/AASB136_07-04_COMPapr07_07-07.pdf) for further information on impairment of assets.

# APPENDIX A – Examples of impairment indicators

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](#_APPENDIX_B_–) for guidance on how to identify and recognise of impairment losses and [Appendix C](#_APPENDIX_C_–) for guidance on the reversal of impairment losses.

**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 has been made not to replace/repair the asset.

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| *Examples** building damaged by fire or natural disasters
* building closed due to the identification of structural deficiencies
* sections of an elevated roadway 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 the identification of structural deficiencies
* an equipment is damaged and can no longer be repaired or for which repairs are not economically feasible.
 |

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

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| *Examples** Land (currently valued at 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.
 |

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

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| *Example** 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.
* 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 revaluation of agency infrastructure assets were undertaken.
* 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.
* 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 purchasing assets (replacement).
 |

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

Demand or need for services has ceased but the asset still maintains the same service potential.

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| *Example** Due to heavy flooding over the years, an agency has discovered that a bridge in a remote area requires a lot of repairs and a decision has been 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 effect on the agency**

An asset’s service potential may be reduced as a result of a change in a law or regulation.

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| *Example** 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.
* A water treatment plant cannot be used because it does not meet new environmental standards.
* An automobile does not meet new emissions standards
* An aeroplane does not meet new noise standards.
 |

**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 an asset is not being used in the same way it was when originally put into service, 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.

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| --- |
| *Example** A school building is no longer suitable for educational purposes and can only be used for storage purposes
* A mainframe computer is underutilised because many applications have been converted or developed to operate on servers or PC platforms.
 |

**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.

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| *Example** construction was stopped due to the 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. |

**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.

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| *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 a result of technological development
* 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.
 |

**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.

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| --- |
| *Example** An internal health department report on operations of a rural clinic indicates that an x-ray machine used by the clinic is impaired because the cost of maintaining the machine has significantly exceeded that original budgeted.
 |

# APPENDIX B – How to identify and recognise an impairment loss

Does an asset impairment indicator/s exist?

Estimate recoverable amount

(higher of value in use or fair value less costs of disposal)

**No impairment loss**

Is carrying amount greater than recoverable amount?

Is the asset subject to the revaluation model?

**Refer to 6.2** [**Example 2**](#_Example_2_–)

**Refer to 6.1** [**Example 1**](#_Example_1_–)

Yes

No

No

Yes

Yes

No

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

Agency A acquired an 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. Because of the law, the asset has effectively become obsolete overnight and can only be sold for a scrap value of $1 600. The relevant asset is measured at cost (not subject to the revaluation model).

|  |  |  |  |
| --- | --- | --- | --- |
|  | Carrying Amount (a) | Recoverable Amount (b) | Impairment loss (c = a-b) |
| Cost of equipment | $20 000 | $2 0001 | $18 000 |
| Less: Accumulated Depreciation (2/10 years) | ($ 4 000) | ($400)2 | ($3 600) |
| Balance at 30 June | **$16 000** | **$1 600** | **$14 400** |

1($1 600 / $16 000) = **0.10,** (0.10x $20 000) = **$2 000**  2$4 000 x 0.10 = **$400**

The recommended journal entries for this transaction is outlined below:

1. Journal to record impairment loss on equipment:

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Asset impairment loss – Plant and equipment | 382540 | $14 400 |  |
| Accumulated Depreciation Plant & Equipment – Impairment Adjustments | 845270 | $3 600 |  |
| Plant and Equipment – Impairment Decrement/Reversal | 845170 |  | $18 000 |

## Example 2 – Accounting for an impairment loss on a revalued asset

A mine in a remote community has 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
* the houses are currently four years old and have a 20 year useful life
* as an active market exists, the agency measures the houses at net market value ($150 000 each and $750 000 in total for the five houses)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Carrying Amount (a) | Recoverable Amount (b) | Impairment loss (c = a-b) |
| Fair value | $1 250 000 | $937 5001 | $312 500 |
| Less: Accumulated Depreciation  | ($250 000) | ($187 500) 2 | ($62 500) |
| Balance at 30 June | **$1 000 000** | **$750 000** | **$250 000** |

1($750 000 / $1 000 000) = **0.75, (0.75** x $1 250 000) = **$937 500**  2$250 000 x 0.75 = **$187 500**

The recommended journal entries for this transaction is outlined below:

1. **Assume agency has an asset revaluation reserve balance for the buildings asset class of $300 000**: Journal to record impairment loss would be accounted for as follows.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Asset Revaluation Reserve – Buildings - Impairment Loss | 992100 | $250 000 |  |
| Accumulated Depreciation Buildings – Impairment Adjustments | 842270 | $62 500 |  |
| Buildings – Impairment Decrement/Reversal | 842170 |  | $312 500 |

1. **Assume agency has an asset revaluation reserve balance for the building assets class of $100 000:** Journal to record impairment loss would be accounted for as follows.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Asset Revaluation Reserve – Buildings - Impairment Loss | 992100 | $100 000 |  |
| Asset impairment loss – Buildings | 382520 | $150 000 |  |
| Accumulated Depreciation Buildings – Impairment Adjustments | 842270 | $62 500 |  |
| Buildings – Impairment Decrement/Reversal | 842170 |  | $312 500 |

# APPENDIX C – How to identify and recognise reversal of an impairment loss

Yes

No

No

Yes

Yes

No

Yes

Has the asset (or group of assets) had an impairment loss recognised against it in prior years?

Is there an indication that the impairment loss recognised in prior years no longer exists or has decreased?

Estimate recoverable amount

(higher of value in use or fair value less costs of disposal)

**No reversal of impairment loss**

Is recoverable amount greater than carrying amount?

Is it a revalued asset?

**Refer to 7.2,** [**Example 2**](#_Example_2_–_1)

**Refer to 7.1,** [**Example 1**](#_Example_1_–_1)

No

## 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 6.1 [Example 1](#_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 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:

* agency spent $10,000 to improve the asset
* the carrying amount of each asset is $1 350 as at 30 June
* 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, $3,650 is recognised as the reversal of an impairment loss from a prior period (refer calculation below)

Agency has determined that the recoverable amount of the asset is not greater than its carrying amount had an impairment loss not been recognised.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Carrying Amount (a) | Recoverable Amount (b) | Reversal of impairment loss (c = b-a) |
| Cost of equipment | $2 000 | $7 4072 | $5 407 |
| Additional Capital Expenditure | $10 000 | $10 000 | - |
| Less: Accumulated Depreciation  | ($650)1 | ($2 407)3 | ($1 757) |
| Balance at 30 June | **$11 350** | **$15 000** | **$3 650** |

1$(400+250) previous accumulated depreciation plus depreciation expense for one year

2$(15 000-10 000) = $5 000 for recoverable amount, ($11 350-$10 000 = $1 350) for carrying amount = $5 000/$1 350 x $2 000 = **$7 407**

3$5 000/$1 350 x $650 = **$2 407**

The journal entry for the reversal of the impairment loss recognised in Appendix B 6.1 [Example 1](#_Example_1_–) is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Plant and Equipment – Acquisitions/ Capitalised expenditure | 845110/845160 | $10 000 |  |
| Cash at Bank | 811110 |  | $10 000 |
| Accumulated Depreciation Plant & Equipment – Impairment Adjustments | 845270 |  | $1 757 |
| Plant and Equipment – Impairment Decrement/Reversal | 845170 | $5 407 |  |
| Asset Impairment Reversal | 176400 |  | $3 650 |

## Example 2 – Accounting for a reversal of an impairment loss on a revalued asset

This example provides for the reversal of an impairment loss using the information provided below and the information contained in Appendix B 6.2 [Example 2](#_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 the 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 market value, which resulted in values of $170,000 each ($850 000 in total for five houses) 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

Agency has determined that the recoverable amount of the assets is not greater than their carrying amount had an impairment loss not been recognised.

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | Carrying Amount (a) | Recoverable Amount (b) | Reversal of impairment loss (c = b-a) |
| Cost of buildings | $937 500\* | $1 214 2862 | $276 786 |
| Less: Accumulated Depreciation | ($281 250)1 | ($364 286)3 | ($83 036) |
| Balance at 30 June | **$656 250** | **$850 000** | **$193 750** |

\*Remaining useful life 20 years

1$187 500 + 93 750 ($46,875 depreciation per yr x 2 yrs) = **$281 250**

2$850 000 / $656 250 x $937 500 = **$1 214 286**

3$850 000 / $656 250 x $281 250 = **$364 286**

The increase is considered 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:

1. **Assumes initial impairment loss adjustment was fully recorded through the agency’s asset revaluation reserve balance for the buildings asset class of $300 000**:

Journal to record reversal of impairment loss would be accounted for as follows.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Buildings – Impairment Decrement/Reversal | 842170 | $276 786 |  |
| Accumulated Depreciation Buildings – Impairment Adjustments | 842270 |  | $83 036 |
| Asset Revaluation Reserve – Buildings | 992100 |  | $193 750 |

1. **Assume initial impairment loss was partially recorded through the comprehensive operating statement because agency had an asset revaluation reserve balance for the building asset class of $100 000:**

Journal to record the reversal of the impairment loss would be accounted for as follows.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Buildings – Impairment Decrement/Reversal | 842170 | $276 786 |  |
| Accumulated Depreciation Buildings – Impairment Adjustments | 842270 |  | $83 036 |
| Asset Impairment Reversal | 176400 |  | $150 000\* |
| Asset Revaluation Reserve – Buildings | 992100 |  |  $43 750 |

*\*Impairment loss of $150 000 was previously recognised in the comprehensive operating statement. See section 6.2 Example 2*