national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 21 – Impairment of Non-cash-generating Assets

Effective 1 April 2021

DEFINITIONS

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

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

- An entity determines the designation on initial recognition, based on the objective of using the asset (i.e. whether it is used to generate a commercial return for the entity).
- When it is not clear if the objective to use an asset is to generate commercial return, it is designated as non-cash-generating (to deliver services)
- A redesignation occurs only when there is clear evidence that such redesignation is appropriate

IMPAIRMENT LOSS= CARRYING AMOUNT > RECOVERABLE SERVICE AMOUNT

RECOVERABLE SERVICE AMOUNT = Higher of fair value less costs to sell and value in use

Fair value less costs to sell

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

Cost of disposal are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses

Value in use

Value in use is the present value of the asset's remaining service potential

Depreciated replacement cost
- The replacement cost is the cost to replace the asset's gross service potential, and is depreciated to reflect the asset in its used condition

Restoration cost approach
- Determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment

Service units approach
- Determined by reducing the current replacement/reproduction cost to conform with the reduced number of service units expected from the asset in its impaired state

WHEN TO TEST FOR IMPAIRMENT

When there is an indicator of impairment. Indicators are assessed at each reporting date.

External sources
- Cessation, or near cessation, of the demand or need for services provided by the asset
- L/T changes (with adverse effect) in technological, legal or government policy environment

Internal sources
- Evidence of obsolescence or physical damage
- Discontinuance, disposal or restructuring plans and idle assets
- Decision to halt construction of asset
- Declining asset service performance

Annual impairment test

Compulsory for:
- Intangible assets with an indefinite useful life
- Intangible assets not yet available for use

- Recognise impairment immediately in surplus / deficit unless the asset is carried at revalued amount, which is treated as revaluation decrease
- Adjust the depreciation / amortisation based on revised carrying amount

WHEN TO REVERSE IMPAIRMENT

External sources
- Resurgence of the demand or need for services provided by the asset
- L/T changes (with favourable effect) in technological, legal or government policy environment

Internal sources
- Evidence of restored service potential of asset
- Decision to resume construction of the asset
- Evidence indicates that service performance of asset is, or will be, better than expected

- Recognise reversal impairment immediately in surplus / deficit unless the asset is carried at revalued amount, which is treated as revaluation increase
- Adjust the depreciation / amortisation based on revised carrying amount

Principle: GRAP 21 applies on an asset basis, an entity does not group assets together to form non-cash-generating units. The Standard also applies to assets that are measured applying a revaluation model to subsequent measurement