national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 26 – Impairment of 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
- A redesignation occurs only when there is clear evidence that such redesignation is appropriate

IMPAIRMENT LOSS = CARRYING AMOUNT > RECOVERABLE AMOUNT

RECOVERABLE 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 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

Cash flows:
- From continuing use and disposal
- Based on asset in its current form
- Exclude financing activities
- Pre-tax

Discount rate:
- Pre-tax
- Risks relating to value in use are reflected either in future cash flows or in the discount rate. The assumptions are otherwise double counted

WHEN TO TEST FOR IMPAIRMENT

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

External sources
- Significant decline in market value
- Changes (with adverse effect) in technological, market, economic or legal environment
- Changes in interest rates

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

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
- Observable indications for significant increase in assets value
- Changes (with favourable effect) in technological, market, economic or legal environment
- Market interest rates have decreased.

Internal sources
- Changes in way asset is used or expected to be used
- Evidence from internal reporting indicates that economic performance of the asset will be better than expected
- Decision to resume construction of the asset

- 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