ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

IMPAIRMENT OF NON-CASH-GENERATING ASSETS (GRAP 21)

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March 2009

Acknowledgement

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New York, New York 10017 USA

Internet: http://www.ifac.org

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IMPAIRMENT OF NON-CASH-GENERATING ASSETS

This Standard was originally issued by the Accounting Standards Board (the Board) in March 2009. Since then, it has been amended by:

- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfer of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*
- Amendments to GRAP 21 *Impairment of Non-cash-generating Assets* and GRAP 26 *Impairment of Cash-generating Assets*, issued by the Board in November 2016.
- Improvements to the Standards of GRAP, issued by the Board in April 2017.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 37 *Joint Arrangements*
- Consequential amendments when *Amendments to GRAP 1 Presentation of Financial Statements* as part of the project on *Materiality* became effective.

Introduction

This pronouncement is set out in paragraphs .01 to .85B. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

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

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except:

(a) inventories (see the Standard of GRAP on Inventories (GRAP 12));

(b) assets arising from construction contracts (see the Standard of GRAP on Construction Contracts (GRAP 11));

(c) financial assets that are within the scope of the Standard of GRAP on Financial Instruments (GRAP 104);

(d) investment property that is measured at fair value (see the Standard of GRAP on Investment Property (GRAP 16));

(e) biological assets related to agricultural activity within the scope of the Standard of GRAP on Agriculture that are measured at fair value less costs to sell; and

(f) other non-cash-generating assets in respect of which accounting requirements for impairment are included in another Standard of GRAP.

.03 An entity shall first apply this Standard to designate its assets as either non-cash-generating or cash-generating in accordance with paragraphs .13A to .16C. Entities that designate their assets as non-cash-generating assets shall apply the requirements of this Standard. For assets that are designated as cash-generating assets, entities shall apply the requirements of the Standard of GRAP on Impairment of Cash-generating Assets (GRAP 26).

.04 This Standard does not apply to inventories and non-cash-generating assets arising from construction contracts because existing Standards of GRAP applicable to these assets contain requirements for recognising and measuring such assets (see GRAP 11 and GRAP 12). In addition, this Standard does not apply to biological assets related to agricultural activity that are measured at fair value less costs to sell. The applicable Standards of GRAP dealing with such assets contain measurement requirements.

.05 This Standard does not apply to financial assets that are included in the scope of GRAP 104. Impairment of these assets is dealt with in that Standard.

.06 This Standard does not require the application of an impairment test to an investment property that is carried at fair value in accordance with GRAP 16*.* Under the fair value model in GRAP 16, an investment property is carried at fair value at each reporting date, and any impairment will be taken into account in the valuation.

.07 Investments in:

(a) controlled entities, as defined in the Standard of GRAP on *Consolidated Financial Statements* (GRAP 35);

(b) associates, as defined in the Standard of GRAP on *Investments in Associates and Joint Ventures*; and

(c) joint arrangements, as defined in the Standard of GRAP on *Joint Arrangements* (GRAP 37);

are financial assets that are excluded from the scope of GRAP 104. Where such investments are in the nature of non-cash-generating assets, they are dealt with under this Standard. Where these assets are cash-generating assets, they are dealt with under GRAP 26.

.08 This Standard applies to non-cash-generating property, plant and equipment, intangible assets and heritage assets carried at revalued amounts in accordance with the Standards of GRAP on *Property, Plant and Equipment* (GRAP 17)*, Intangible Assets* and *Heritage Assets*. The fair value for these assets is not determined at each reporting date but depends on the frequency of changes in the fair value from one reporting period to the next. The entity therefore needs to assess at each reporting date whether there is an indication that the value of the asset may be impaired since the last revaluation.

.09 A transferor that holds a non-cash-generating asset or a group of non-cash-generating assets that are to be relinquished in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*), and combining entities that holds a non-cash-generating asset or a group of non-cash-generating assets that are to be transferred in a merger (see the Standard of GRAP on *Mergers*), shall apply the principles in this Standard until the transfer or merger date.

Definitions

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

<u>Cash-generating assets</u> 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.

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

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

An ***impairment*** ***is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.***

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

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

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

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

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

.10A Unless stated otherwise, references to "an asset" or "assets" in the following paragraphs of this Standard are references to "non-cash-generating asset(s)".

Cash-generating assets and non-cash-generating assets

.11 [Deleted].

.12 [Deleted].

.13 [Deleted].

.14 [Deleted].

.15 [Deleted].

.16 [Deleted].

Depreciation

.17 Depreciation and amortisation are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term "amortisation" generally is used instead of "depreciation". Both terms have the same meaning.

Impairment

.18 This Standard defines an "impairment" as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it. For example, an entity may have a purpose-built military storage facility that it no longer uses. In addition, because of the specialised nature of the facility and its location, it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. The asset is regarded as impaired as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives.

Designation of an asset as cash-generating or non-cash-generating

.18A At initial recognition, an entity shall designate:

(a) an asset as non-cash-generating; or

(b) an asset or cash-generating unit as cash-generating.

The designation is made on the basis of an entity's objective of using the asset.

.18B Assets are designated as cash-generating or non-cash-generating based on the entity's objective of using the assets. Assets can either be used with the objective of generating a commercial return or delivering services. In some cases, an entity may use its assets to fulfil both objectives.

.18C Cash generating assets are assets used with the objective of generating a commercial return. For the purposes of this Standard, assets that generate a commercial return are those that generate positive cash flows which are expected to be significantly higher than the cost of the assets.

.18D Non-cash-generating assets are assets that are not used with the objective to generate a commercial return. Instead they are used to deliver services.

.18E The assessment of an entity's objective of using the asset is performed at initial recognition, based on management's expected use of the asset over its useful life. Subsequent to initial recognition and designation, an entity shall redesignate an asset in accordance with paragraphs .72 and .73 or paragraphs .114 and .115 of GRAP 26 if there has been a change in an entity's expected use of the asset that is expected to result in positive cash flows that are significantly higher than the cost of the asset.

.18F An entity shall assess the objective of using an asset or cash-generating unit instead of assessing the entity's overall objective. In the case of infrastructure assets, as described in GRAP 17, an asset can be a group of assets that are part of a system or network. As the designation of assets is undertaken for assets or cash-generating units, it is possible for different assets of an entity to be classified as cash-generating assets or non-cash-generating assets.

.18G Since the initial designation of an asset as cash-generating or non-cash-generating is based on the initial expected use of the asset, this Standard does not require an entity to demonstrate on an annual basis whether it has achieved that initial expectation. Therefore, an asset may be used with the objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be generating a commercial return during a particular reporting period. The designation of an asset will not change between reporting periods unless there has been a change in the entity's objective of using the asset that is expected to result in positive cash flows that are significantly higher than the cost of the asset.

Cash-generating assets

.18H An entity shall designate an asset or a cash-generating unit as cash-generating when:

(a) its objective is to use the asset or cash-generating unit in a manner that generates a commercial return; such that

(b) the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

Entities that designate their assets or cash-generating units as cash-generating shall apply GRAP 26 to such assets rather than this Standard.

.18I An entity's objective is to use the assets to generate a commercial return when those assets are deployed in a manner consistent with that adopted by a profit-oriented entity. In such cases, management's plans and decisions will indicate that the entity intends to generate positive cash flows that are expected to be significantly higher than the cost of the assets at acquisition. These positive cash flows must be significantly higher than the cost of the asset and not result in a break-even position or be marginally higher than the cost of the asset. Where the positive cash flows are marginally higher than the cost of the asset, an entity applies judgement to assess their significance.

.18J An assessment of management's plans and decisions at initial recognition will indicate the extent to which the asset will be used with the objective of generating a commercial return. Evidence will be available from external and internal reporting which supports the entity's objective. For example, a review of strategic plans, budgets, submissions to external bodies (such as regulators), asset acquisition proposals, and cost and revenue reports will indicate that the asset will be used, or is expected to be used, to generate a commercial return.

.18K For assets acquired through a non-exchange transaction, the cost of the asset is its fair value as at the date of acquisition.

Non-cash-generating assets

.18L An entity shall designate an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services. An

entity shall apply this Standard rather than GRAP 26 for assets that are designated as non-cash-generating assets.

.18M Assets held in the public sector are generally not used with the objective of generating a commercial return but are used for delivering services. When an entity does not use its assets with the objective of generating a commercial return, it may deliver those services at no charge or by generating positive cash flows that are sufficient to break even or generating a marginal return. As the entity's objective is not to generate a commercial return, the assets are designated as non-cash-generating assets.

.18N When an entity does not use its assets with the objective of generating a commercial return, management's decisions and plans to continue deploying assets in that manner will not be influenced by the assets' ability to generate a commercial return. Since the entity's objective is not to generate a commercial return, the entity is not required to assess the significance of any cash flows generated in relation to the cost, at initial recognition.

Dual-purpose assets

.18O An asset used with the objective of generating a commercial return and service delivery shall be designated either as a cash-generating asset or non-cash-generating asset based on whether an entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, an entity designates the asset as a non-cash-generating asset and applies the provisions of this Standard rather than GRAP 26.

.18P Some assets may be used to fulfil both objectives of generating a commercial return and service delivery. An entity shall firstly assess whether it expects to use the assets to generate a commercial return to determine whether the assets should be designated as cash-generating asset or non-cash-generating assets. In cases when it is not clear what the overall objective of using the assets is, the presumption is that assets are used with the objective to deliver services. As a result, an entity applies the provisions of this Standard rather than GRAP 26*.* For example, a municipality may use its infrastructure assets to provide free basic services to indigent households and also charge a fee based on cost plus a specific return to non-indigent households. If the entity's objective of using the asset is to generate a commercial return, an entity applies GRAP 26 rather than this Standard. When it is not clear what the overall objective of using the assets is, the presumption is that the assets are used with the objective of delivering services.

.18Q In some cases, an entity may use an asset with the objective of generating a commercial return and use the return generated by that asset to cross-subsidise other assets that are used for service delivery purposes. In such cases, an entity applies GRAP 26 rather than this Standard because its objective of using the asset is to generate a commercial return. An entity cannot conclude that the asset is not a cash-generating asset on the basis that it uses the positive cash flows derived by that asset for service delivery.

Identifying an asset that may be impaired

.19 An asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraph .23 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.

.20 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.

.21 Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.

.22 The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

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

External sources of information

(a) Cessation, or near cessation, of the demand or need for services provided by the asset.

(b) Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

Internal sources of information

(c) Evidence is available of obsolescence or physical damage of an asset.

(d) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite.

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

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

.24 The demand or need for services may fluctuate over time, which will affect the extent to which assets are used in providing those services, but negative fluctuations in demand are not necessarily indications of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired. Demand may be considered to have “nearly” ceased when it is so low that the entity would not have attempted to respond to that demand, or would have responded by not acquiring the asset being considered for impairment testing.

.25 The list in paragraph .23 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset’s recoverable service amount. For example, any of the following may be an indication of impairment:

(a) during the period, an asset’s market value has declined significantly more than would be expected as a result of the passage of time or normal use; or

(b) a significant long-term decline (but not necessarily a cessation or near cessation) in the demand for or need for services provided by the asset.

.26 The events or circumstances that may indicate an impairment of an asset will be significant and will often have prompted discussion by the management. A change in a parameter such as demand for the service, extent or manner of use, legal environment or government policy environment would indicate impairment only if such a change was significant and had or was anticipated to have a long-term adverse effect. A change in the technological environment may indicate that an asset is obsolete, and requires testing for impairment. A change in the use of an asset during the period may also be an indication of impairment. This may occur when, for example, a building used as a school undergoes a change in use and is used for storage. In assessing whether an impairment has occurred, the entity needs to assess changes in service potential over the long term. This underlines the fact that the changes are seen within the context of the anticipated long-term use of the asset. However, the expectations of long-term use can change and the entity’s assessments at each reporting date would reflect that.

.26A Physical damage would trigger an impairment test when it results in a permanent or significant decline in the service potential of the asset. Judgement is needed to determine whether the decline is permanent or significant. Such judgements may be based on the relative costs of providing the service before and after the decline, the percentage decline in service potential or other considerations. The decline in service potential is expected to be permanent when management has no reasonable expectation that the lost service potential will be replaced or restored. In certain circumstances evidence may be available to demonstrate that the impairment will be temporary. In such circumstances, management considers whether the decline in service potential will be significant.

.27 In assessing whether a halt in construction would trigger an impairment test, the entity would consider whether construction has simply been delayed or postponed, whether there is an intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted.

.28 Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph .23(f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:

(a) significantly higher costs of operating or maintaining the asset, compared with those originally budgeted; and

(b) significantly lower service or output levels provided by the asset compared with those originally expected due to poor operating performance.

A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up. Similarly, a significant increase in maintenance costs may indicate that higher costs need to be incurred to maintain the asset's performance at a level indicated by its most recently assessed standard of performance. In other cases, direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

.29 The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph .23.

.30 If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard of GRAP applicable to the asset, even if no impairment loss is recognised for the asset.

Measuring recoverable service amount

.31 This Standard defines recoverable service amount as the higher of an asset's fair value less costs to sell and its value in use. Paragraphs .32 to .48 set out the basis for measuring recoverable service amount.

.32 It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

.33 It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. Paragraph .39 sets out possible alternative bases for estimating fair value less costs to sell when an active market for the asset does not exist. However, sometimes it will not be possible to determine fair value less costs to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its recoverable service amount.

.34 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable service amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds. However, for many entities assets which are held on an ongoing basis to provide specialised services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less costs to sell.

.35 In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs to sell or value in use.

Measuring the recoverable service amount of an intangible asset with an indefinite useful life

.36 Paragraph .21 requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable service amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

(a) the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and

(b) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.

Fair value less costs to sell

.37 The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

.38 If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

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

.40 Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in the Standard of GRAP on *Employee Benefits*) and costs associated with reducing or reorganising an operation following the disposal of an asset are not direct incremental costs to dispose of the asset.

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

Value in use

.42 This Standard defines the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential. "Value in use" in this Standard refers to "value in use of a non-cash-generating asset" unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs .43 to .47, as appropriate.

Depreciated replacement cost approach

.43 Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

.44 The replacement cost and reproduction cost of an asset are determined on an "optimised" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

.45 In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset.

Restoration cost approach

.46 Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is 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. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower. Paragraphs .43 to .45 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service units approach

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

Application of approaches

.48 The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:

(a) impairments identified from significant long-term changes in the technological, legal or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach, when appropriate;

(b) impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near cessation of demand, are generally measurable using a depreciated replacement cost or a service units approach when appropriate; and

(c) impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach when appropriate.

Recognising and measuring an impairment loss

.49 Paragraphs .50 to .56 set out the requirements for recognising and measuring impairment losses for an asset. In this Standard "impairment loss" refers to "impairment loss of a non-cash-generating asset" unless otherwise specified.

.50 If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. That reduction is an impairment loss.

.51 As noted in paragraph .20, this Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a potential impairment loss is present. Paragraphs .23 to .30 identify key indications that an impairment loss may have occurred.

.52 An impairment loss shall be recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP (for example, in accordance with the revaluation model in GRAP 17). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard.

.53 An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset.

.54 ***When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard of GRAP.***

.55 Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero with a corresponding amount recognised in surplus or deficit. A liability would be recognised only if another Standard of GRAP so requires. An example is when a purpose-built military installation is no longer used and the entity is required by law to remove such installations if not usable. The entity may need to make a provision for dismantling costs if required by the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*.

.56 ***After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.***

Reversing an impairment loss

.57 Paragraphs .58 to .71 set out the requirements for reversing an impairment loss recognised for an asset in prior periods.

.58 ***An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.***

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

<u>External sources of information</u>

(a) Resurgence of the demand or need for services provided by the asset.

(b) Significant long-term changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

<u>Internal sources of information</u>

(bA) Evidence is available that indicates that the service potential of the asset has been restored following physical damage to the asset.

(c) Significant long-term changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the

period to improve or enhance an asset's performance, restructure the operation to which the asset belongs or a decision to use rather than dispose of an asset.

(d) A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition.

(e) Evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.

.60 Indications of a potential decrease in an impairment loss in paragraph .59 mainly mirror the indications of a potential impairment loss in paragraph .23.

.61 The list in paragraph .59 is not exhaustive. An entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, any of the following may be an indication that the impairment loss may have reversed:

(a) a significant rise in an asset's market value; or

(b) a significant long-term increase in the demand or need for the services provided by the asset.

.62 A commitment to discontinue or restructure an operation in the near future is an indication of a reversal of an impairment loss of an asset belonging to the operation where such a commitment constitutes a significant long-term change, with a favourable effect on the entity, in the extent or manner of use of that asset. Circumstances where such a commitment would be an indication of reversal of impairment often relate to cases where the expected discontinuance or restructuring of the operation would create opportunities to enhance the utilisation of the asset. An example is an x-ray machine that has been underutilised by a clinic managed by a public hospital and, as a result of restructuring, is expected to be transferred to the main radiology department of the hospital where it will have significantly better utilisation. In such a case, the commitment to discontinue or restructure the clinic's operation may be an indication that an impairment loss recognised for the asset in prior periods may have to be reversed.

.63 If there is an indication that an impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value may need to be reviewed and adjusted in accordance with the Standard of GRAP applicable to the asset, even if no impairment loss is reversed for the asset.

.64 An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as

described in paragraph .67, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.

.65 This Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a reversal of an impairment loss is present. Paragraph .59 identifies key indications that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased.

.66 A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. Paragraph .79 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

(a) a change in the basis for recoverable service amount (i.e. whether recoverable service amount is based on fair value less costs to sell or value in use);

(b) if recoverable service amount was based on value in use, a change in estimate of the components of value in use; or

(c) if recoverable service amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.

.67 The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

.68 Any increase in the carrying amount of an asset above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the Standard of GRAP applicable to the asset.

.69 A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amount in accordance with another Standard of GRAP (for example, the revaluation model in GRAP 17). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard of GRAP.

.70 A reversal of an impairment loss on a revalued asset is recognised to the revaluation reserve in the statement of changes in net assets for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit.

.71 After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to

allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation of assets

.72 The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the listed indications in paragraph .23.

.73 When there has been a change in the manner in which an entity uses an asset that is expected to result in positive cash flows that are significantly higher than the cost of the asset, an entity shall redesignate a non-cash-generating asset as a cash-generating asset.

Disclosure

.74 An entity shall disclose in its significant accounting policies, the judgements management has made in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets.

.75 An entity shall disclose the following for each class of assets:

(a) the amount of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included;

(b) the amount of reversals of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed;

(c) the amount of impairment losses on revalued assets recognised directly in net assets during the period; and

(d) the amount of reversals of impairment losses on revalued assets recognised directly in net assets during the period.

.76 A class of assets is a grouping of assets of similar nature and use in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

.77 The information required in paragraph .75 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant and equipment, at the beginning and end of the period, as required by GRAP 17.

.78 ***An entity that reports segment information in accordance with the Standard of GRAP on Segment Reporting (GRAP 18) shall disclose the following for each reportable segment:***

(a) the amount of impairment losses recognised in surplus or deficit and directly in net assets during the period; and

(b) the amount of reversals of impairment losses recognised in surplus or deficit and directly in net assets during the period.

.79 ***An entity shall disclose the following for each material impairment loss recognised or reversed during the period:***

(a) the events and circumstances that led to the recognition or reversal of the impairment loss;

(b) the amount of the impairment loss recognised or reversed;

(c) the nature of the asset;

(d) if the entity reports segment information in accordance with GRAP 18, the reportable segment to which the asset belongs;

(e) whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use;

(f) if the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market);

(g) if the recoverable service amount is value in use, the method and significant assumptions applied, including the discount rate(s) used in the current estimate and previous estimate (if any) of value in use; and

(h) whether an independent valuer was used to determine the recoverable service amount.

.80 ***An entity shall disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph .79:***

(a) the main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses); and

(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

.81 ***An entity shall disclose in the notes information about the key assumptions used to determine the recoverable service amount of assets during the period that have a significant risk of causing a material adjustment to the carrying amounts of assets.***

Transitional provisions

Initial adoption of the Standards of GRAP

.82 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to Standards of GRAP

.83 Paragraphs .03, .10, .12, .13, .14, .15, .16, .19, .23, .24, .26, .34, .78 and .79 were amended and paragraph .11 was added by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply these amendments prospectively for annual financial periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.83A Paragraphs .03, .10, .43, .59, .73 and .74 were amended, paragraphs .11 to .16 were deleted and paragraphs .10A, .18A to .18Q and .26A were added by the Amendments to the Standards of GRAP on Impairment of Non-cash-generating Assets and *Impairment of Cash-generating Assets issued in November 2016. An entity shall apply these amendments prospectively for annual financial periods beginning on or after 1 April 2018. If an entity elects to apply these amendments earlier, it shall disclose this fact.*

.83B Where the application of the amendments in paragraph .83A result in the redesignation of existing assets from cash-generating asset to non-cash-generating asset or from non-cash-generating asset to a cash-generating asset, an entity shall assess whether that redesignation triggers an impairment test or a reversal of an impairment loss.

Effective date

Initial adoption of the Standards of GRAP

.84 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Entities already applying Standards of GRAP

.85 An entity shall apply amendments to this Standard for annual financial statements covering periods beginning on or after 1 April 2018. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 April 2018, it shall disclose that fact.

.85A Paragraph .07 was amended by GRAP 35 and GRAP 37 issued March 2017. An entity shall apply these amendments retrospectively for annual financial

periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.85B Paragraph .74 was amended by the Amendments to the Standard of GRAP on Presentation of Financial Statements (2018) issued in April 2019. These amendments are effective for annual periods beginning on or after 1 April 2023. Earlier application of these amendments is permitted.

Appendix

Flowchart to determine an impairment loss for non-cash-generating assets

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

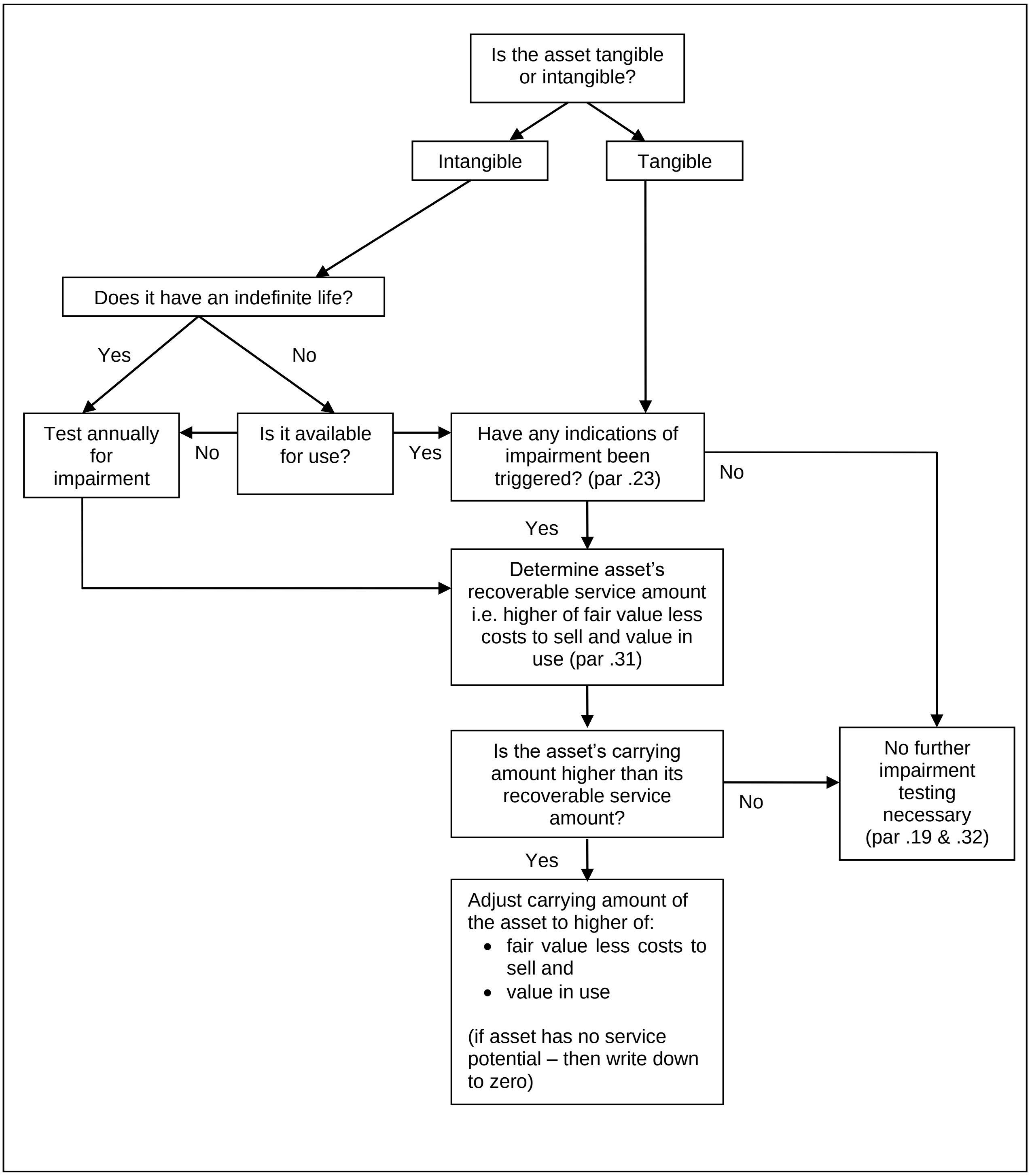
The flow chart applies to non-cash-generating assets once an assessment has been made to determine whether the asset is a non-cash-generating asset after applying the principles in paragraphs .11 to .16.

The objective of the flow chart on the next page is to identify the steps to be taken by an entity:

- to assess whether a non-cash-generating asset is impaired (Appendix A1); and
- to determine the recoverable service amount when one of the indications of impairment have been triggered (Appendix A2).

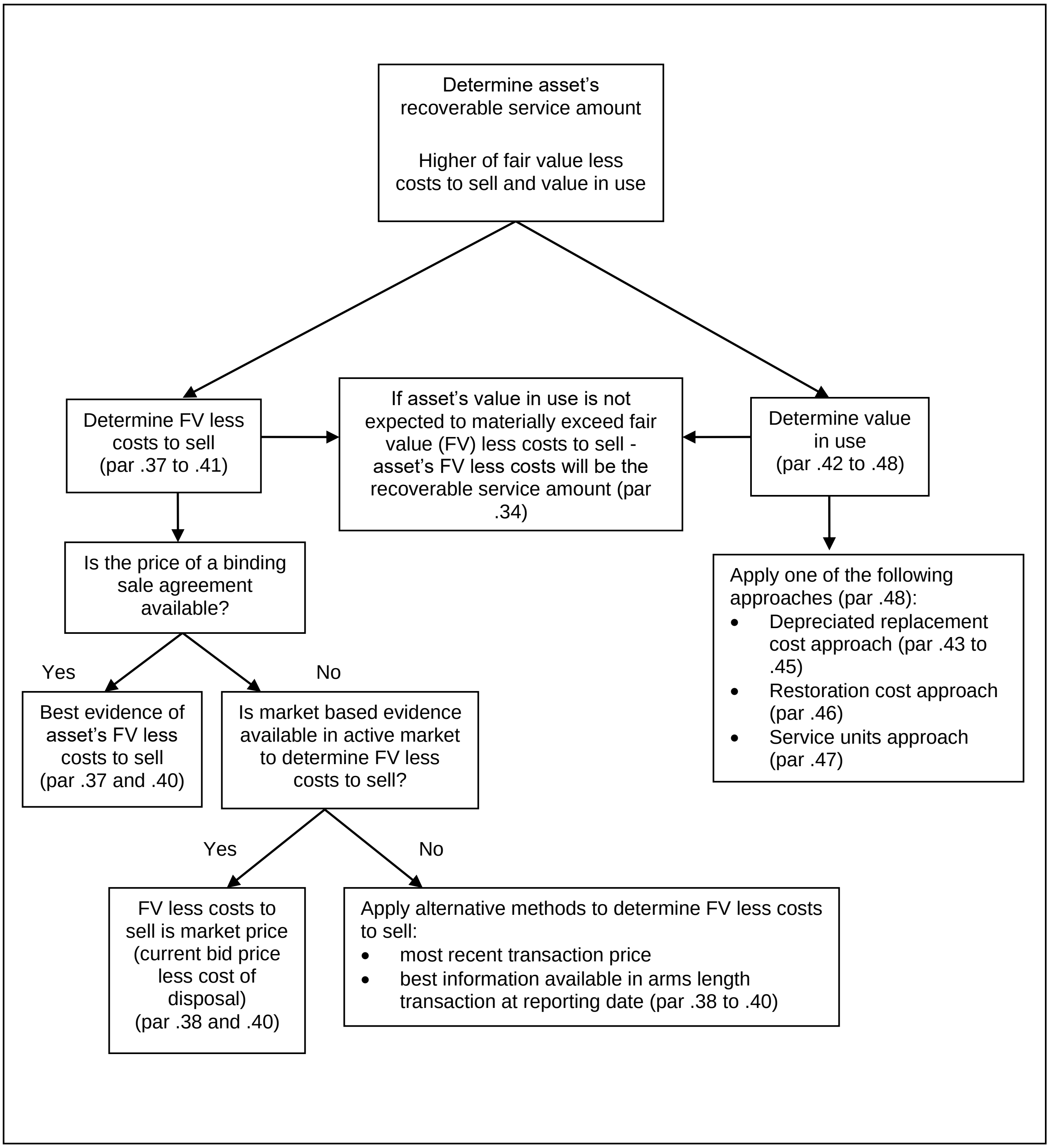
Appendix A1

Assess whether a non-cash-generating asset is impaired



Appendix A2

Determine the recoverable service amount when one of the indications of impairment have been triggered



Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for impairment of non-cash-generating assets. This basis for conclusions accompanies, but is not part of, this Standard.

Introduction

BC1. This Standard prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and establishes how the impairment is recognised and measured. This Standard is primarily drawn from the International Public Sector Accounting Standard on *Impairment of Non-cash-generating Assets* (IPSAS 21). In developing this Standard, the Board also considered pronouncements issued by other standard setting bodies dealing with the accounting for impairment of assets.

BC2. This basis for conclusions summarises the significant departures that are made from IPSAS 21 and the reasons for such departures.

Scope

Inclusion of property, plant and equipment carried at revalued amounts

BC3. Property, plant and equipment carried at revalued amounts in accordance with the revaluation model are within the scope of the IAS Standard on *Impairment of Assets* (IAS 36).

BC4. The scope of IPSAS 21, however, excludes non-cash-generating property, plant and equipment carried at revalued amounts in accordance with the revaluation model in the International Public Sector Accounting Standard on *Property, Plant and Equipment* (IPSAS 17). The basis for conclusions in IPSAS 21 states that the IPSASB is of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17 will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting date. Impairment will therefore be taken into account in that valuation.

BC5. A similar scope exclusion for cash-generating property, plant and equipment carried at revalued amounts was included in the International Public Sector Accounting Standard on *Impairment of Cash-generating Assets* (IPSAS 26). The IPSASB concluded that it would be onerous to impose a requirement to test for impairment in addition to the existing requirement in IPSAS 17 that requires assets to be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting date. Therefore, on balance, the IPSASB concluded that IPSAS 26 should be consistent with the conclusion in IPSAS 21.

BC6. In its argument to exclude property, plant and equipment carried at revalued amounts from the scope of IPSAS 21 and IPSAS 26, the IPSASB noted that in IAS 36 the maximum amount of an impairment loss is the disposal costs. This is particularly relevant in cases where the fair value of an item of property, plant and equipment is its market value. The IPSASB is of the view that, in most cases, these will not be material and, from a practical point of view, it is not necessary to measure an asset's recoverable service amount and to recognise an impairment loss for the disposal costs of the asset.

BC7. The Board, however, agrees with the scope inclusion of property, plant and equipment carried at revalued amounts as in IAS 36. The Board is the view that it will not be too onerous to assess at each reporting date whether there is an indication that an asset may be impaired, or that an impairment loss recognised in prior periods for the asset may no longer exist.

BC8. The Board is also of the view that entities may not revalue their assets with "sufficient regularity", as the cost of revaluing certain public sector assets may initially be quite expensive. The disposal costs of certain specialised assets in the public sector therefore may well be significant. The scope exclusion for non-cash-generating property, plant and equipment carried at revalued amounts is therefore not included in this Standard.

Inclusion of intangible assets carried at revalued amounts

BC9. For similar reasons as those expressed for the scope exclusion of non-cash-generating property, plant and equipment carried at revalued amounts, the IPSASB also scoped out the impairment of cash-generating intangible assets carried at revalued amounts. IAS 36, however, includes the impairment of such intangible assets in the scope of IAS 36.

BC10. The Board, for similar reasons as those expressed in the scope inclusion of non-cash-generating property, plant and equipment carried at revalued amounts, agrees with the scope inclusion of impairment of non-cash-generating intangible assets carried at revalued amounts as in IAS 36. The scope exclusion for the impairment of non-cash-generating intangible assets carried at revalued amounts is therefore not included in this Standard.

BC11. During 2015 the IPSASB revisited the original decision to exclude revalued property, plant and equipment and intangible assets from the scope of IPSAS 21. As a result, the general principle in this Standard is now consistent with that found in the revised IPSAS 21. However, with regards to the recognition and measurement of impairments and reversals for revalued assets, the boards follow different approaches. The IPSASB recognises the impairment losses and reversals in the revaluation reserve for the class of assets while the Board recognises these for the same asset. The Board considered the IPSASB's approach as part of the Improvements to Standards of GRAP (2016) but agreed that it would be inappropriate to align its approach to the IPSASB's as the approach in this Standard is consistent with the principle in GRAP 17 that requires that revaluation increases or decreases are applied to the revaluation surplus of the same asset.

Designation of an asset as cash-generating or non-cash-generating

BC12. In responding to the concerns raised by many respondents to its Improvements to Standards of GRAP (2013), the Board considered how it can simplify and streamline the principles relating to the distinction between cash-generating and non-cash-generating assets.

BC13. The issues identified by respondents related to applying the concept of generating a commercial return in the public sector. There have been varying interpretations of what constitutes a commercial return and some hold the view that the primary objective of deploying most assets in the public sector cannot be to generate a commercial return as the primary objective is service delivery.

BC14. The Board noted that to adequately address the concerns raised, the classification of cash-generating and non-cash-generating should move away from an assessment of whether an asset is managed with the objective of generating a commercial return. The Board concluded that the classification should be based on an entity's objective for using the asset.

BC15. The Board observed that entities in the public sector usually use assets with the objective of delivering services and/or to generate positive cash flows. The Board agreed that the objective of using the assets should be applied as a basis to determine whether the assets are cash-generating or non-cash-generating. It noted that when an entity decides to construct or purchase an asset, it will usually have a predetermined objective for using an asset. The Board acknowledged that the principles it has set for the classification of assets may be difficult to apply in cases where an entity uses its assets with the objective of delivering services and also generating positive cash flows. The Board concluded that the principles in the Standards should also clarify how entities should determine the classification if the overall objectives of using the asset are unclear. The Board agreed that it is necessary to include what the presumption is in respect of assets used for dual-purposes.

BC16. As part of the simplification and streamlining the impairment requirements in the Standards, the Board considered the principles underpinning the value in use concept applicable to non-cash-generating assets in this Standard. In particular, the Board considered the deprival value model, which is applied mostly in Australia, United Kingdom and New Zealand to select a current measurement basis when preparing financial statements. The model is premised on the fact that if an entity has an asset, an entity should measure that asset at the value it would be deprived of if the entity lost that asset, which is its replacement cost. The model also notes that the value the entity is deprived of would be based on what the entity could replace the asset with, but also considers that an entity owns that asset and can therefore operate the asset in a certain manner. The Board adopted the thinking behind this model as a basis to support what it considers the best measurement basis for determining value in use in the public sector.

BC17. It is this thinking that supports the Board's observations that when an entity uses its assets with the objective of delivering services, the most relevant measurement basis to determine value in use is the depreciated replacement cost. This is because when an entity is deprived of an asset, the entity will incur a cost equivalent to the depreciated replacement cost to obtain the equivalent remaining service potential and economic benefits (including the net amount that would be received on disposal of the asset). As a result, the value of the asset to an entity cannot be higher than its depreciated replacement cost when it is used with the objective to deliver services. However, when the asset is used with the objective of generating cash flows that are expected to be significantly higher than the depreciated replacement cost, then the asset is a cash-generating asset and the most relevant measure of value in use is the discounted cash flows.

BC18. The Board believed that adopting this approach for classifying assets as either cash-generating or non-cash-generating would require less judgement and is suitable as entity-specific criteria can be subjective. Previously, the classification required management to apply judgement when assessing whether an entity is generating a commercial return and this proved to be problematic. In this approach the Board had substituted the idea of generating a commercial return with an entity's use of its assets with the objective of generating positive cash flows that are expected to be significantly higher than the cost of replacing the asset.

BC19. While respondents understood the Board's rationale for simplifying the requirements and moving away from the concept of generating a commercial return, they suggested that the Board consider not substituting the concept of generating a commercial return. They indicated that the previous guidance did not clearly explain this concept, which resulted in interpretation issues amongst preparers. These respondents observed that the introduction of the notion that a cash-generating asset is one that "generates positive cash flows that are expected to be significantly higher than the depreciated replacement cost" captures and explains clearly when an entity would be generating a commercial return. Consequently, the Board agreed not to move away from the concept of generating a commercial return.

BC20. Some respondents noted that while the Board's approach may achieve some simplification, they found the reference to the depreciated replacement cost when an entity is assessing the designation of its assets to be confusing. Some explained that the confusion stems from the following issues: (a) the idea that a depreciated replacement cost calculation is required to be performed and what other "evidence" would be necessary to support this assumption, and (b) issues have been raised about whether and how the assessment would need to be done to justify the designation on an ongoing basis.

BC21. Based on the feedback from respondents, the Board deliberated on the relevance of the proposed approach. The Board observed that many assets in the public sector are measured using a historical measurement basis. As a result, it concluded that the notion that positive cash flows from using the asset need to be higher than the cost of the asset at acquisition is appropriate, as the amounts charged for the services provided will include, or aim to recover, the depreciation based on the cost of the asset. The Board debated whether re-designations should be based on the cost of the asset or the depreciated replacement cost. It was agreed that the same measurement basis would be used for initial and subsequent designations as the historical cost measure is straightforward and the information readily available.

BC22. The Board concluded that, in applying the requirements of this Standard, it would not require entities to perform annual calculations to demonstrate what the entities' objectives of using the assets are. The Board's view is that an entity would have had a clear objective of how it would use its assets, and would have made certain calculations in setting its tariffs and understanding the basis of its cost structure, in order to reach the conclusion that its objective is to use its assets to generate a commercial return. The Board noted that it should clarify that the assessment is done initially, taking into account the overall long term objective of using the asset.

BC23. Part of the Board's considerations in the review project was assessing the feasibility of combining the two Standards into a single Standard. While there are similarities in the two Standards, and combining the Standards will result in the reduction of duplication of requirements, the Board considered those areas that are different and how it could respond to these dissimilarities. The Board concluded that it may be difficult to develop a single set of indicators suitable for both cash-generating and non-cash-generating assets, and that there is still merit in retaining two separate Standards. Respondents generally supported the Board's view.

BC24. After considering the amendments made to the designation of assets, the Board questioned the format of the two Standards. The Board believed that including the new section on the designation of assets in both Standards would create unnecessary duplication in the requirements. The Board agreed that the section on designations should only be included in this Standard, and a cross reference should be added to GRAP 26 that makes it clear that entities should first apply this Standard to designate their assets, and thereafter apply the applicable Standard for the impairment of their assets.

Permanent or significant decline in service potential

BC25. One of the findings from the Board's post-implementation review project was that assets are being impaired for minor damage that could be rectified through repairs and maintenance. The Board concluded that it is necessary to clarify that the intention of the impairment Standards is to reflect those damages that have a permanent or significant impact on the value or service potential of an asset.

Comparison with the International Public Sector Accounting Standard on *Impairment of Non-Cash-Generating Assets* (February 2007)

This Standard is drawn primarily from IPSAS 21. The main differences between this Standard and IPSAS 21 are as follows:

- The definition of cash-generating assets in this Standard is different from IPSAS 21.
- This Standard uses different terminology, in certain instances, from IPSAS 21. The most significant example is the use of the term “net assets” in this Standard. The equivalent term in IPSAS 21 is “net assets/equity”.
- The scope of this Standard is different in that biological assets related to agricultural activities that are measured at fair value less costs to sell are excluded from the scope of this Standard. IPSAS 21 has no such scope exclusions.
- This Standard recognises impairment losses and reversals for assets measured at revalued amounts in the revaluation surplus for the same asset, while IPSAS 21 recognises them in the revaluation reserve for the class of assets.
- The basis for classifying assets as non-cash-generating or cash-generating assets is based on the objective for which an asset will be used, and a section has been added in this Standard to deal with the designation of assets.
- The concept of generating a commercial return has been modified to be consistent with the basis for classifying assets, and is based on whether the use of the asset will generate positive cash flows that are expected to be significantly higher than the cost of the asset.
- This Standard includes an indicator for the reversal of an impairment loss relating to the restoration of the service potential of an asset following physical damage to the asset.
- IPSAS 21 requires the disclosure of criteria developed to distinguish cash-generating assets from non-cash-generating assets.
- Transitional provisions applicable to this Standard are dealt with differently than in IPSAS 21.
- A flow chart is included as an appendix to assist entities in assessing whether a non-cash-generating asset is impaired and to determine the recoverable service amount when one of the impairment indicators have been triggered.
- The appendices with illustrative examples on indications of impairment and measurement of impairment loss have been deleted from this Standard.