ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

IMPAIRMENT OF CASH-GENERATING ASSETS

(GRAP 26)

Issued by the
Accounting Standards Board

March 2009

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Impairment of Cash-Generating Assets* is based on the International Public Sector Accounting Standard (IPSAS) 26 on *Impairment of Cash-Generating Assets* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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International Federation of Accountants

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Internet: http://www.ifac.org

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Standard of Generally Recognised Accounting Practice

Impairment of Cash-generating Assets

GRAP 26

IMPAIRMENT OF 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 *Transfers of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfers 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 .130B. 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 cash-generating asset is impaired and to ensure that impairment losses are recognised. This Standard also specifies when an entity should 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 the impairment of cash-generating assets, except for:

(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) deferred tax assets (see the IAS Standard on Income Taxes (IAS 12));

(f) assets arising from employee benefits (see the Standard of GRAP on Employee Benefits (GRAP 25));

(g) 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;

(h) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the IFRS Accounting Standard(s) on insurance; and

(i) other cash generating assets in respect of which accounting requirements for impairment are included in another Standard.

.03 An entity shall first apply the Standard of GRAP on Impairment of Non-cash-generating Assets (GRAP 21) to designate its assets as either non-cash-generating or cash-generating in accordance with paragraphs .18A to .18Q of that Standard. Entities that designate their assets as cash-generating assets shall apply this Standard. For assets that are designated as non-cash-generating assets, entities shall apply the requirements of GRAP 21.

.04 This Standard does not apply to inventories and 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). This Standard does not apply to deferred tax assets (see IAS 12), assets related to employee benefits (see GRAP 25), or deferred acquisition costs and intangible assets arising from an insurer's contractual rights under insurance contracts (see the IFRS Accounting Standard(s) on insurance). 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 relevant Standards of GRAP dealing with such assets contain measurement requirements.

.05 This Standard does not apply to any 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 ventures, 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 cash-generating assets, they are dealt with under this Standard. Where these assets are in the nature of non-cash-generating assets, they are dealt with under GRAP 21.

.08 This Standard applies to 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 cash-generating asset or a cash-generating unit 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 cash-generating asset or a cash-generating unit 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:***

***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.*

***A cash-generating unit** is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.*

***Costs of disposal** 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 cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable amount.*

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

***The recoverable amount** of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.*

***Value in use of a cash-generating asset** 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 at the end of its useful life.*

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 "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" is generally 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. Impairment of a cash-generating asset, therefore, reflects a decline in the future economic benefits or service potential embodied in an asset to the entity that controls it. For example, an entity may have a municipal parking garage that is currently being used at 25 per cent of capacity. It is held for commercial purposes and management has estimated that it generates a commercial rate of return when usage is at 75 per cent of capacity and above. The decline in usage has not been accompanied by a significant increase in parking charges. The asset is regarded as impaired because its carrying amount exceeds its recoverable amount.

Identifying an asset that may be impaired

.19 An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs .23 to .25 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of the recoverable amount. Except for the circumstances described in paragraph .21, this Standard does not require an entity to make a formal estimate of the recoverable amount if no indication of an impairment loss is present.

.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 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 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*:**

<u>External sources of information</u>

(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.

(b) Significant 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, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

<u>Internal sources of information</u>

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

(e) Significant 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.

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

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

.24 The list in paragraph .23 is not exhaustive. An entity may identify other indications that an asset may be impaired and these would also require the entity to determine the asset's recoverable amount.

.25 Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:

(a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;

(b) actual net cash flows or surplus or deficit flowing from the asset that are significantly worse than those budgeted;

(c) a significant decline in budgeted net cash flows or surplus, or a significant increase in budgeted loss, flowing from the asset; or

(d) deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

.26 As indicated in paragraph .21, this Standard requires an intangible asset with an indefinite useful life or an intangible asset that is not yet available for use to be tested for impairment, at least annually.

.27 As an illustration of paragraph .26, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:

(a) If the discount rate used in calculating the asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for an asset that has a long remaining useful life.

(b) If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates but previous sensitivity analysis of recoverable amount shows that:

(i) it is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (for example, in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly exchange revenues) to compensate for any increase in market rates); or

(ii) the decrease in recoverable amount is unlikely to result in a material impairment loss.

.28 Apart from when the requirements of paragraph .21 apply, the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph .23.

.29 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 applicable to the asset, even if no impairment loss is recognised for the asset.

Measuring recoverable amount

.30 This Standard defines recoverable amount as the higher of an asset's fair value less costs to sell and its value in use. Paragraphs .31 to .69 set out the requirements for measuring recoverable amount. These requirements use the term "an asset" but apply equally to an individual asset or a cash-generating unit.

.31 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.

.32 It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. 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 amount.

.33 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 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, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

.34 Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs .85 to .90), unless either:

(a) the asset's fair value less costs to sell is higher than its carrying amount; or

(b) the asset is a part of a cash-generating unit but is capable of generating cash flows individually, the asset's value in use can be estimated to be close to its fair value less costs to sell and the asset's fair value less costs to sell can be determined.

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

Measuring the recoverable 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 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 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) if the intangible asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;

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

(c) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable 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 the 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 considers 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 GRAP 25) 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. Paragraph .89 explains how to deal with such cases.

Value in use

.42 The following elements shall be reflected in the calculation of an asset's value in use:

(a) an estimate of the future cash flows the entity expects to derive from the asset;

(b) expectations about possible variations in the amount or timing of those future cash flows;

(c) the time value of money, represented by the current market risk-free rate of interest;

(d) the price for bearing the uncertainty inherent in the asset; and

(e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

.43 Estimating the value in use of an asset involves the following steps:

(a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

(b) applying the appropriate discount rate to those future cash flows.

.44 The elements identified in paragraphs .42(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, i.e. the weighted average of all possible outcomes.

Basis for estimates of future cash flows

.45 In measuring value in use an entity shall:

(a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence;

(b) base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and

(c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not

exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

.46 Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

.47 Detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

.48 Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.

.49 When conditions are favourable, competitors may enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used.

.50 In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

Composition of estimates of future cash flows

.51 Estimates of future cash flows shall include:

(a) projections of cash inflows from the continuing use of the asset;

(b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

(c) net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

.52 Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).

.53 Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.

.54 When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.

.55 To avoid double-counting, estimates of future cash flows do not include:

(a) cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and

(b) cash outflows that relate to obligations that have been recognised as liabilities (for example, payables, pensions or provisions).

.56 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:

(a) a future restructuring to which an entity is not yet committed; or

(b) improving or enhancing the asset's performance.

.57 Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:

(a) future cash outflows or related cost savings (for example, reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or

(b) future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.

.58 A restructuring is a programme that is planned and controlled by management and materially changes either the scope of the entity's activities or the manner in which those activities are carried out. The Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19) contains guidance clarifying when an entity is committed to a restructuring.

.59 When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:

(a) its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and

(b) its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with GRAP 19.

.60 Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits or service potential associated with the expected cash outflow.

.61 Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits or service potential expected to arise from the asset in its current condition. When a unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.

.62 Estimates of future cash flows shall not include:

(a) cash inflows or outflows from financing activities; or

(b) income tax receipts or payments (where applicable).

.63 Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, since the discount rate is determined on a pre-tax basis, future cash flows are also determined on a pre-tax basis.

.64 The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

.65 The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs to sell, except that, in estimating those net cash flows:

(a) an entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used; and

(b) the entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

Foreign currency future cash flows

.66 Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount rate

.67 The discount rate(s) shall be a pre-tax rate(s) that reflect(s) current market assessments of:

(a) the time value of money, represented by the current risk-free rate of interest; and

(b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

.68 A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

.69 When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate.

Recognising and measuring an impairment loss of an individual asset

.70 Paragraphs .71 to .75 set out the requirements for recognising and measuring impairment losses for an individual asset. The recognition and measurement of impairment losses for cash-generating units are dealt with in paragraphs .76 to .97.

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

.72 ***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.***

.73 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.

.74 ***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.***

.75 ***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.***

Cash-generating units

.76 Paragraphs .77 to .97 set out the requirements for identifying the cash-generating unit to which an asset belongs and determining the carrying amount of, and recognising impairment losses for, cash-generating units.

Identifying the cash-generating unit to which an asset belongs

.77 ***If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).***

.78 The recoverable amount of an individual asset cannot be determined if:

(a) the asset's value in use cannot be estimated to be close to its fair value less costs to sell (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and

(b) the asset does not generate cash inflows that are largely independent of those from other assets and is not capable of generating cash flows individually.

In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

.79 As defined in paragraph .10, an asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgement. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

.80 Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors including how management monitors the entity's operations (such as by product lines, operations, individual locations, districts or regional areas) or how management makes decisions about continuing or disposing of the entity's assets and operations.

.81 If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

(a) the future cash inflows used to determine the asset's or cash-generating unit's value in use; and

(b) the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

.82 Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, or to any other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if internal transfer prices do not reflect management's best estimate of future prices that could be achieved in arm's length transactions.

.83 Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

.84 If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph .121 requires disclosures about the cash-generating unit, if an impairment loss is recognised or reversed for the cash-generating unit.

Recoverable amount and carrying amount of a cash-generating unit

.85 The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs .30 to .69 to an asset is read as a reference to cash-generating unit.

.86 The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

.87 The carrying amount of a cash-generating unit:

(a) includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and

(b) does not include the carrying amount of any recognised liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

This is because fair value less costs to sell and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognised (see paragraphs .40 and .55).

.88 When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate or are used to generate the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. Appendix B provides a flow diagram illustrating the treatment of individual assets that are part of cash-generating units.

.89 It may be necessary to consider some recognised liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs to sell (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the estimated selling price for the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

.90 For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash-generating unit (for example, receivables or other financial assets) or liabilities that have been recognised (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Impairment loss for a cash-generating unit

.91 An impairment loss shall be recognised for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised in accordance with paragraph .72.

.92 In allocating an impairment loss in accordance with paragraph .91, an entity shall not reduce the carrying amount of an asset below the highest of:

(a) its fair value less costs to sell (if determinable);

(b) its value in use (if determinable); and

(c) zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other cash-generating assets of the unit.

.93 Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset shall be allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit. The carrying amount of the non-cash-generating asset shall reflect any impairment losses at the reporting date which have been determined under the requirements of GRAP 21.

.94 If the recoverable amount of an individual asset cannot be determined (see paragraph .78):

(a) an impairment loss is recognised for the asset if its carrying amount is greater than the higher of its fair value less costs to sell and the results of the allocation procedures described in paragraphs .91 to .93; and

(b) no impairment loss is recognised for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs to sell is less than its carrying amount.

.95 In some cases, non-cash-generating assets contribute to cash-generating units. This Standard requires that, where a cash-generating unit subject to an impairment test contains a non-cash-generating asset, that non-cash-generating asset is tested for impairment in accordance with the requirements of GRAP 21. A proportion of the carrying amount of that non-cash-generating asset, following that impairment test, is included in the carrying amount of the cash-generating unit. The proportion reflects the extent to which the service potential of the non-cash-generating asset contributes to the cash-generating unit. The allocation of any impairment loss for the cash-generating unit is then made on a pro rata basis to all cash-generating assets in the cash-generating unit, subject to the limits in paragraph .92. The non-cash-generating asset is not subject to a further impairment loss beyond that which has been determined in accordance with GRAP 21.

.96 Where an asset releases service potential to one or more cash-generating activities, but not to non-cash-generating activities, entities refer to the relevant accounting standard that deals with such circumstances.

.97 After the requirements in paragraphs .91 to .93 have been applied, a liability shall be recognised for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another Standard of GRAP.

Reversing an impairment loss

.98 Paragraphs .99 to .106 set out the requirements for reversing an impairment loss recognised for an asset or a cash-generating unit in prior periods. These requirements use the term "an asset" but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs .107 to .111 and for a cash-generating unit in paragraphs .112 and .113.

.99 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 amount of that asset.***

.100 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) The asset's market value has increased significantly during the period.

(b) Significant 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, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.

(c) Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

<u>Internal sources of information</u>

(cA) Evidence is available that indicates that the asset has been restored

following physical damage to the asset.

(d) ***Significant 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 the asset's performance, restructure the operation to which the asset belongs, or a decision to use rather than dispose of an asset.***

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

(f) ***Evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.***

.101 Indications of a potential decrease in an impairment loss in paragraph .100 mainly mirror the indications of a potential impairment loss in paragraph .23.

.102 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.

.103 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 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 .107, be increased to its recoverable amount. That increase is a reversal of an impairment loss.

.104 This Standard requires an entity to make a formal estimate of recoverable amount only if an indication of a reversal of an impairment loss is present. Paragraph .100 identifies key indications that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased.

.105 A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. An entity is required to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

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

(b) if recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows or in the discount rate; or

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

.106 An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the "unwinding" of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an impairment loss for an individual asset

.107 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 amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

.108 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.

.109 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.

.110 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 recognised in surplus or deficit.

.111 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.

Reversing an impairment loss for a cash-generating unit

.112 A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised in accordance with paragraph .111. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

.113 In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph .112, the carrying amount of an asset shall not be increased above the lower of:

(a) its recoverable amount (if determinable); and

(b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit.

Redesignation of assets

.114 The redesignation of an asset 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. At the subsequent reporting date after a redesignation, an entity shall consider, as a minimum, the listed indications in paragraph 23.

.115 When there has been a change in the manner in which an entity uses an asset that results in positive cash flows that are not expected to be significantly higher than the cost of the asset, an entity shall redesignate a cash-generating asset as a non-cash-generating asset.

Disclosure

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

.117 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.

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

.119 The information required in paragraph .117 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.

.120 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 based on an entity's primary reporting format:

(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.

.121 An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an asset or a cash-generating unit:

(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) for a cash-generating asset:

(i) the nature of the asset; and

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

(d) for a cash-generating unit:

(i) a description of the cash-generating unit (such as whether it is a product line, a plant, an operation, a geographical area, or reportable segment);

(ii) the amount of the impairment loss recognised or reversed by class of assets, and, if the entity reports segment information in accordance with GRAP 18, by reportable segment; and

(iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.

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

(f) if the recoverable 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 amount is value in use, the methods 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 amount.

.122 ***An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph .121:***

(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.

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

Disclosure of estimates used to measure recoverable amounts of cash-generating units containing intangible assets with indefinite useful lives

.124 ***An entity shall disclose the information required by (a) to (e) for each cash-generating unit for which the carrying amount of intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of intangible assets with indefinite useful lives:***

(a) the carrying amount of intangible assets with indefinite useful lives allocated to the unit;

(b) the basis on which the unit's recoverable amount has been determined (i.e. value in use or fair value less costs to sell);

(c) if the unit's recoverable amount is based on value in use:

(i) a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's recoverable amount is most sensitive;

(ii) a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;

(iii) ***the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit, an explanation of why that longer period is justified;***

(iv) ***the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit is dedicated;***

(v) ***the discount rate(s) applied to the cash flow projections;***

(d) ***if the unit's recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit, the following information shall also be disclosed:***

(i) ***a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's recoverable amount is most sensitive; and***

(ii) ***a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information; or***

If fair value less costs to sell is determined using discounted cash flow projections, the following shall also be disclosed:

(iii) ***the period over which management has projected cash flows;***

(iv) ***the growth rate used to extrapolate cash flow projections;***

(v) ***the discount rate(s) applied to the cash flow projections; and***

(e) ***if a reasonably possible change in a key assumption on which management has based its determination of the unit's recoverable amount would cause the unit's carrying amount to exceed its recoverable amount:***

(i) ***the amount by which the unit's recoverable amount would exceed its carrying amount;***

(ii) ***the value assigned to the key assumption; and***

(iii) ***the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change***

on the other variables used to measure recoverable amount, in order for the unit's recoverable amount to be equal to its carrying amount.

.125 If some or all of the carrying amount of intangible assets with indefinite useful lives is allocated across multiple cash-generating units, and the amount so allocated to each unit is not significant in comparison with the entity's total carrying amount of intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount or intangible assets with indefinite useful lives allocated to those units. In addition, if the recoverable amounts of any of those units are based on the same key assumption(s) and the aggregate carrying amount of intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

(a) the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units;

(b) a description of the key assumption(s);

(c) a description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information; and

(d) if a reasonably possible change in the key assumption(s) would cause the aggregate of the units' carrying amounts to exceed the aggregate of their recoverable amounts:

(i) the amount by which the aggregate of the units' recoverable amounts would exceed the aggregate of their carrying amounts;

(ii) the value(s) assigned to the key assumption(s); and

(iii) the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' recoverable amounts to be equal to the aggregate of their carrying amounts.

.126 The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit may, in accordance with paragraph .36, be carried forward and used in the impairment test for that unit in the current period provided specified criteria are met. When this is the case, the information for that unit that is incorporated into the disclosures required by paragraphs .124 and .125 relate to the carried forward calculation of recoverable amount.

Transitional provisions

Initial adoption of the Standards of GRAP

.127 ***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

.128 ***Paragraphs .10, .12, .13, .14, .15, .16, .23, .26, .28, .80, .100 and .120 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 periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.128A ***Paragraphs .03, .10, .100, .115 and .116 were amended, paragraph .10A was added and paragraphs .11 to .16 were deleted 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.***

.128B ***Where the application of the amendments in paragraph .128A 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

.129 ***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

.130 ***An entity shall apply amendments to this Standard for the 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.***

.130A ***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.***

.130B Paragraph .116 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 A – Flowchart to determine an impairment loss for cash-generating assets and cash-generating units

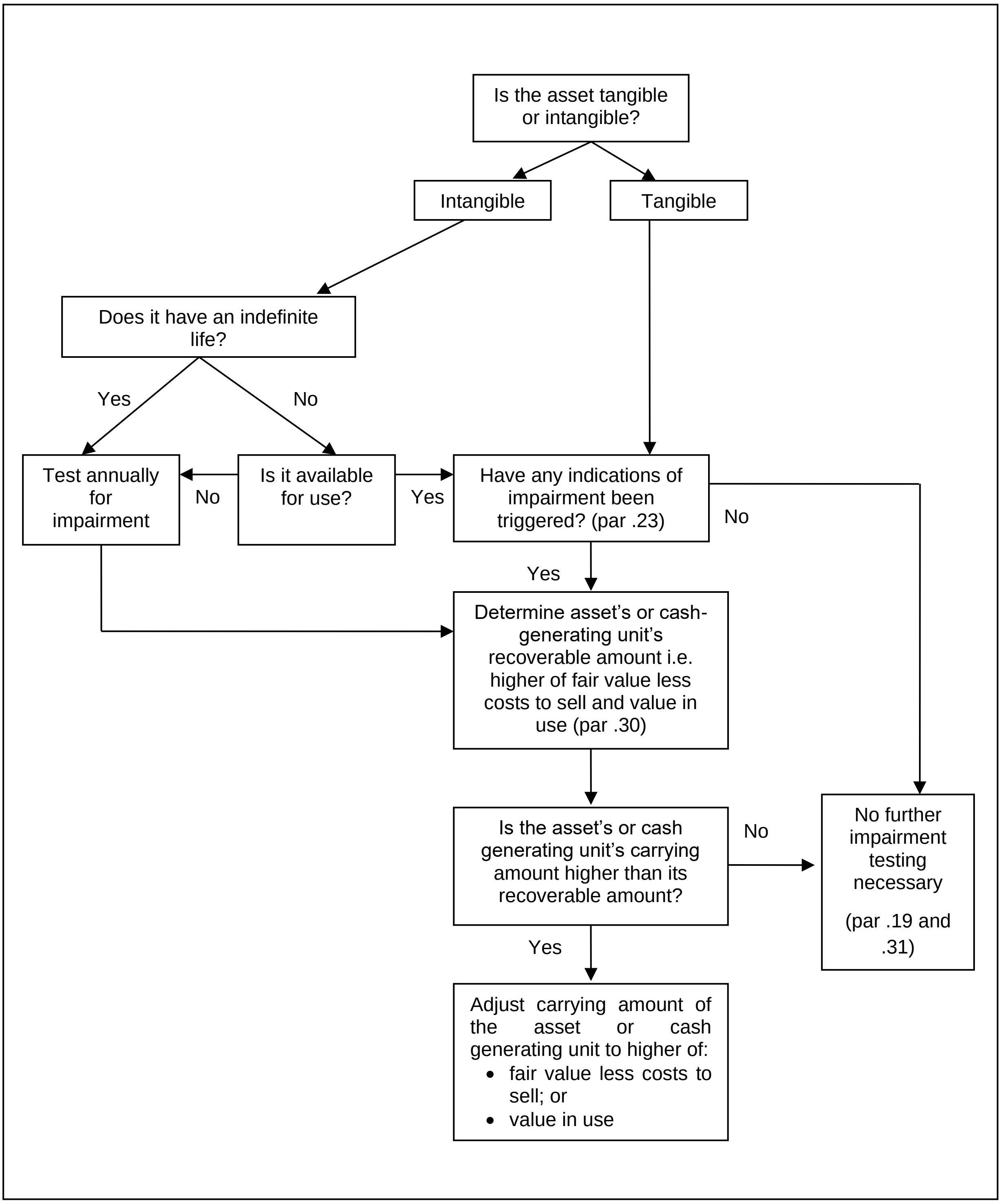
This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

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

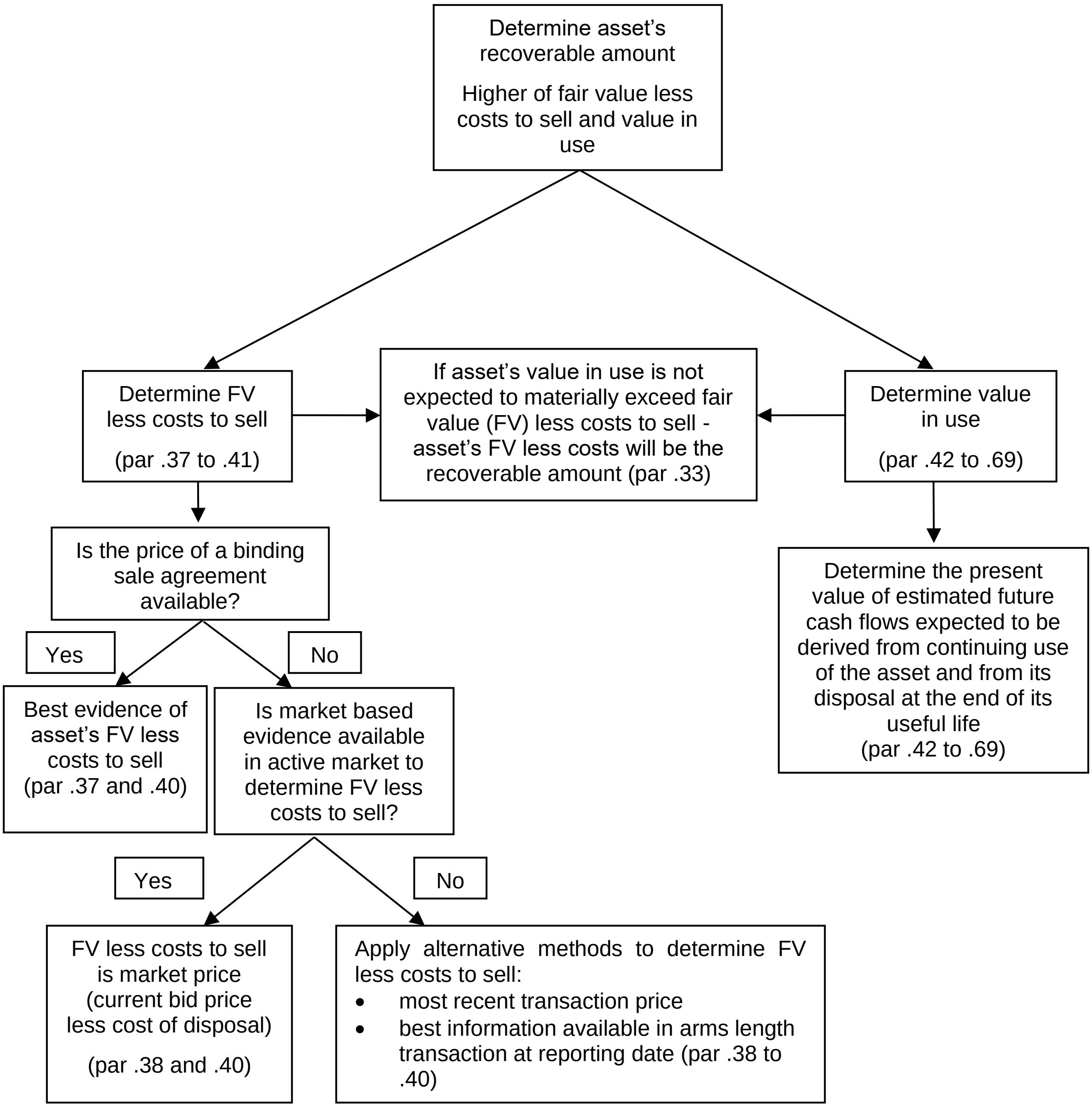
The objective of the flow chart on the next page is to identify the steps to be taken by an entity:

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

Appendix A1 – Assess whether a cash-generating asset or cash-generating unit is impaired



Appendix A2 - Determine the recoverable amount when one of the indications of impairment have been triggered

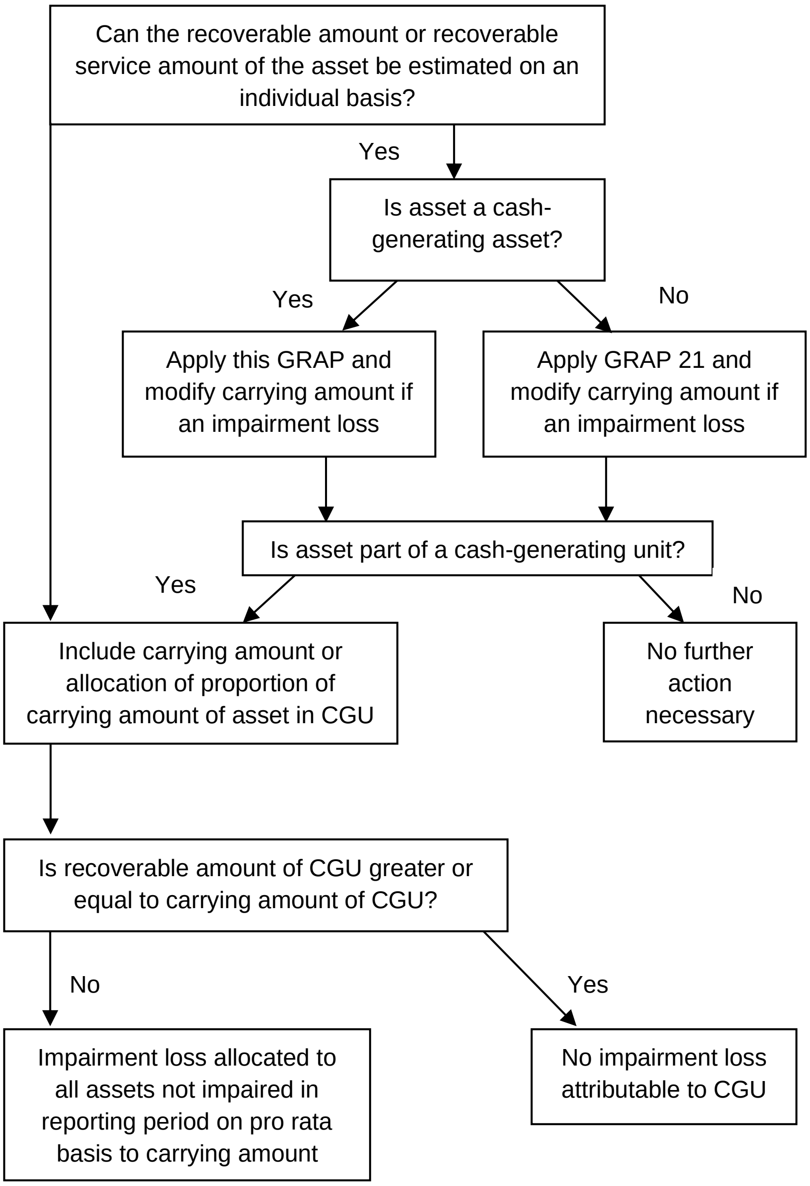


Appendix B

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.

For simplicity and clarity this flowchart assumes that any asset that is part of a cash-generating unit (CGU) also contributes to service potential to non-cash-generating activities. When an asset only contributes service potential to one or more CGUs but not to non-cash-generating activities, entities refer to the relevant accounting standard dealing with such circumstances in accordance with paragraph .96.

Individual assets in cash-generating units (CGUs)



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 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 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 Cash-generating Assets* (IPSAS 26). 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 26 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 International Public Sector Accounting Standards Board (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 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 consistency with IPSAS 21 should take precedence.

BC6. In its argument to exclude property, plant and equipment carried at revalued amounts from the scope of 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 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 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 property, plant and equipment carried at revalued amounts, agrees with the scope inclusion of impairment of intangible assets carried at revalued amounts as in IAS 36. The scope exclusion for the impairment of cash-generating intangible assets carried at revalued amounts is therefore not included in this Standard.

BC10A. During 2015 the IPSASB revisited the original decision to exclude revalued property, plant and equipment and intangible assets from the scope of IPSAS 26. As a result, the general principle in this Standard of GRAP is now consistent with that found in the revised IPSAS 26. 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.

Treatment of goodwill

BC11. IAS 36 contains extensive requirements and guidance on the impairment of goodwill, the allocation of goodwill to cash-generating units and testing cash-generating units with goodwill for impairment. The Standard of GRAP on *Transfer of Functions Between*

Entities Not Under Common Control requires that the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit. As no goodwill is recognised in the statement of financial position, the principles of the impairment of goodwill is not applicable.

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

BC12. In responding to the concerns raised by many respondents to its Improvements Project for 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 GRAP 21. 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 GRAP 21, and a cross reference should be added to this Standard that makes it clear that entities should first apply GRAP 21 to designate their assets, and thereafter apply the relevant Standard for their impairment of the assets.

Comparison with the International Public Sector Accounting Standard on *Impairment of Cash-Generating Assets* (January 2008)

This Standard is drawn primarily from IPSAS 26. The main differences between this Standard and IPSAS 26 are as follows:

- The definitions of cash-generating assets and cash-generating unit in this Standard are different from IPSAS 26.
- This Standard uses different terminology, in certain instances, from IPSAS 26. 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".
- This Standard recognises impairment losses and reversals for assets measured at revalued amounts in the revaluation surplus for the same asset, while IPSAS 26 recognises them in the revaluation reserve for the class of assets.
- The guidance in this Standard has been aligned with the guidance in GRAP 21.
- The basis for classifying assets as cash-generating or non-cash-generating assets is based on the objective for which an asset will be used. The classification of assets has been removed from this Standard, and entities are now required to make this distinction between assets using the guidance that has been added in GRAP 21.
- 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 relating to the restoration of an asset following physical damage to the asset.
- IPSAS 26 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 26.
- A flow chart is included as an appendix to assist entities in assessing whether a cash-generating asset or cash-generating unit is impaired and to determine the recoverable amount when one of the impairment indicators have been triggered.