

Acknowledgment

This Exposure Draft of an International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 36 (1998), *Impairment of Assets* published by the International Accounting Standards Committee (IASC). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB. Extracts from IAS 36 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of the IASB.

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Commenting on this Exposure Draft

This Exposure Draft of the International Federation of Accountants was prepared by the Public Sector Committee. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard.

Comments should be submitted in writing so as to be received by xx Month 2003. E-mail responses are preferred. Unless respondents to Exposure Drafts specifically request confidentiality, their comments are a matter of public record once a Standard has been issued. Comments should be addressed to:

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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing a core set of recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized.

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard setters to establish guidelines and accounting standards for financial reporting in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Due Process and Timetable

An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in these Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the Committee will consider the

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comments received on the Exposure Draft and may modify each proposed IPSASs in the light of the comments received before proceeding to issue a final Standard.

Background

The Committee issued an Invitation to Comment (ITC) *Impairment of Assets* in July 2000. The ITC identified the PSC's tentative views on the principles that should be applied for the recognition and measurement of impairments to assets held by public sector entities. The ITC was the first step in the due process that led to the development of this exposure draft.

The submissions on the ITC reflected broad support for the general approach to impairment proposed by the Committee in that document. However, a number of respondents expressed concern about particular aspects of the impairment tests proposed. During 2001 and 2002, the Committee considered comments by the constituents and a number of staff papers addressing constituents' concerns and the key issues set out in the ITC. A subcommittee of the PSC also considered the principles underpinning the determination of "value in use" for non-cash flow assets and reported to the PSC in late 2002.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the identification, recognition, measurement, reversal and disclosure of an impairment loss in respect of public sector non-cash flow assets.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by xx month 2003. The Committee would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the PSC if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The Committee would particularly value comment on the proposal to:

- (a) include in the scope of the proposed Standard, all assets other than inventories, assets arising from construction contracts, financial assets included in the scope of IPSAS 15, investment property that is measured at fair value under IPSAS 16, property, plant and equipment measured at fair value under IPSAS 17 and other assets in respect of which accounting requirements for impairment are included in another IPSAS (paragraph 1).
- (b) define cash flow assets as assets held by:
 - (i) Government Business Enterprises (GBEs); and
 - (ii) public sector entities other than GBEs to generate a commercial rate of return (paragraph 12).
- (c) assess at each reporting date whether the asset may be impaired using the minimum indications set out in paragraph 18.
- (d) measure asset's recoverable service amount when an indicator of impairment is present at reporting date (paragraph 17).
- (e) to exclude the change in market value from the list of minimum indicators set out in black letter in paragraph 18 and include it in commentary (paragraph 19).
- (f) measure value in use of a non-cash flow asset as the present value of the remaining service potential of the asset (paragraph 12).
- (g) recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 63 and 64).
- (h) assess at each reporting date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased using the indicators set out in paragraph 70.

- (i) measure an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 69).
- (j) recognize a reversal of impairment loss and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 76 (paragraphs 74,76 and 78).
- (k) test the carrying amount of a redesignated asset for impairment as at the date of redesignation if an indicator of impairment exists at that date (paragraph 80).
- (l) make disclosures set out in paragraphs 82, and 85-87.
- (m) include materials and examples relating to impairment in appendices and the sufficiency of such materials and examples.

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**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD IPSAS XX****Impairment of Assets**

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the procedures that an entity applies to determine whether an asset is impaired and to ensure that impairment losses are recognized. The Standard also specifies when an entity should reverse an impairment loss and it prescribes certain disclosures for impaired assets.

Scope

- 1. *An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for impairment of all assets, except:***
 - (a) inventories (see IPSAS 12, Inventories);***
 - (b) assets arising from construction contracts (see IPSAS 11, Construction Contracts);***
 - (c) financial assets that are included in the scope of IPSAS 15 Financial Instruments: Disclosure and Presentation;***
 - (d) Investment property and property, plant and equipment that are measured at fair value (see IPSAS 16 Investment Property and IPSAS 17 Property, Plant and Equipment);***
 - (e) Other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.***

2. ***This Standard applies to all public sector entities other than Government Business Enterprises.***
3. The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 12 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).
4. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.
5. This Standard does not apply to inventories and assets arising from construction contracts because existing International Public Sector Accounting Standards applicable to these assets already contain specific requirements for recognising and measuring these assets. International Public Sector Accounting Standards do not have specific requirements for recognition and measurement of deferred tax assets, assets arising from employee benefits and biological assets related to agricultural activity that are measured at fair value less estimated point of sale costs. However, International Accounting Standards deal with the recognition and measurement of these assets.
6. This Standard does not require the application of an impairment test to an investment property that is carried at fair value under the International Public Sector Accounting Standard IPSAS 16 *Investment Property*. This is because under the fair value model in IPSAS 16, an investment property is carried at fair value at the reporting date and cannot therefore be impaired.
7. The impairment of financial assets that are included in the scope of IPSAS 15 *Financial Instruments* are not dealt with in this Standard. Investments in:
 - (a) subsidiaries, as defined in IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities*;

- (b) associates, as defined in IPSAS 7 *Accounting for Investments in Associates*; and
- (c) joint ventures, as defined in IPSAS 8, *Financial Reporting of Interests in Joint Ventures*;

are financial assets that are excluded from the scope of IPSAS 15. These assets are classified as cash flow assets and are dealt with under IAS 36 *Impairment of Assets* as required by paragraph 8 below.

Cash Flow and Non-Cash Flow Assets

- 8. ***Public sector entities that hold cash flow assets as defined in paragraph 12 should apply IAS 36 Impairment of Assets to such assets. Public sector entities that hold non-cash flow assets should apply the requirements of this Standard to non-cash flow assets.***
- 9. This Standard defines cash flow assets as assets held by:
 - (a) Government Business Enterprises (GBEs); and
 - (b) public sector entities other than GBEs to generate a commercial rate of return.

Assets other than those that satisfy (a) and (b) above are classified as non-cash flow assets.

- 10. Assets held by Government GBEs are cash flow assets. Public sector entities other than GBEs may hold assets to generate a profit or, as a minimum, recover related costs in full. For the purposes of this Standard, an asset held by a non-GBE public sector entity is classified as a cash flow asset if the asset (or unit of which the asset is a part) operates with the objective of generating profit from the provision of its services to external parties. This means the asset generates a commercial rate of return.
- 11. This Standard does not require the application of an impairment test to non-cash flow assets that are carried at revalued amount (fair value) under the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*. This is because under paragraph 39 of IPSAS 17 assets will be revalued with sufficient

regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date and, therefore, cannot be impaired. Property, plant and equipment that are classified as cash flow assets and are carried at revalued amount (fair value) under IPSAS 17 are dealt with under IAS 36 *Impairment of Assets*.

Definitions

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

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Cash flow assets are assets held by:

- (a) public sector Government Business Enterprises (GBEs); and
- (b) public sector entities other than GBEs to generate a commercial rate of return.

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deduction of any accumulated depreciation and accumulated impairment losses.

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

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Government Business Enterprise means an entity that has all the following characteristics:

- (a) *is an entity with the power to contract in its own name;*
- (b) *has been assigned the financial and operational authority to carry on a business;*
- (c) *sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;*
- (d) *is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and*
- (e) *is controlled by a public sector entity.*

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

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

Net selling price *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. This is the fair value of the asset less the costs of selling.*

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

Property plant and equipment *are tangible assets that:*

- (a) *are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and*
- (b) *are expected to be used during more than one reporting period.*

Recoverable service amount of a non-cash flow asset *is the higher of a non-cash flow asset's net selling price and its value in use.*

Useful life of property, plant and equipment *is either:*

- (a) *the period of time over which an asset is expected to be used by the entity; or*

- (b) *the number of production or similar units expected to be obtained from the asset by the entity.*

Value in use of a non-cash flow asset is the present value of the asset's remaining service potential including the present value of the estimated future cash flows expected to arise from its disposal at the end of its useful life.

Value in use of a cash-flow asset is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Government Business Enterprises

13. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge.

Impairment

14. This Standard defines an "impairment" as a loss in the service potential or future economic benefits of an asset, over and above the systematic recognition of the loss of an asset's service potential or future economic benefits through depreciation. 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 and is now derelict. In addition, because of the specialized nature of the facility and its location, it is unlikely that it can be sold and therefore the entity is unable to generate cash flows from its disposal. In this case, the asset is impaired because 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.

Identifying an Asset that may be Impaired

15. Paragraphs 16 to 23 specify when recoverable service amount should be determined.

16. An asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraphs 18 to 21 identify key indicators that an impairment loss may have occurred: if any of those indications is 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.
17. *An entity should assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable service amount of the asset.*
18. *In assessing whether there is any indication that an asset may be impaired, an entity should consider, as a minimum, the following indications:*

External sources of information

- (a) *cession of the demand or need for services provided by the asset; and*
- (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 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 plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date;*
- (e) *a decision to halt the construction of the asset before it is complete or in a usable condition; and*

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

The format of paragraph 18 above follows that of IAS 36. Alternative format which follows that of ITC is as follows:

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

- (a) *a significant long-term change with adverse effect on the entity in the extent to which an asset is used;*
- (b) *a significant long term change with adverse effect on the entity in the manner in which the asset is used;*
- (c) *significant long- term technological development;*
- (d) *physical damage;*
- (e) *cession of the demand or need for services provided by the asset;*
- (f) *a decision to halt the construction of the asset before it is complete or in an usable condition;*
- (g) *a significant long-term change with adverse effect on the entity in the law, government policy or environment that limits the extent to which the asset can be used; and*
- (h) *evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, worse than expected.*

19. The list in paragraph 18 is not exhaustive. There may be other indicators that an asset may be impaired. The existence of other indicators would also require the entity to estimate the asset's recoverable service amount. For example, any of the following may be an indicator of impairment:

- (i) a significant decline in an asset's market value;
- (ii) a significant long term decline (but not necessarily cessation) in the demand for or need for services provided by the asset; or
- (iii) an increase in the market interest rates or other market rates of return on investments during the period that is

likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable service amount materially.

20. The events or circumstances that may indicate an impairment of an asset are significant and often are expected to have prompted discussion by the governing board, management, or media. In some cases, a change in a parameter such as demand for the service, extent or manner of use, or legal or government policy environment would indicate impairment only if it is significant and of a long-term nature. The latter attribute is necessary since it reflects the entity's intention to assess changes in service potential over the long term and 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. Appendix A sets out examples of impairment indicators referred to in paragraph 18.
21. Evidence from internal reporting that indicates that an asset may be impaired 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.

A significant increase in operating costs of an asset may indicate that due to impairment the asset is not as efficient or productive by reference to output standards set by manufacturer in accordance to which the operating budget was drawn up. Similarly a significant increase in maintenance costs may indicate that due to impairment, 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 for impairment may be indicated by a significant long term fall in the expected service or output levels provided by the asset.

22. 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 18.

23. 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 need to be reviewed and adjusted under the International Public Sector Accounting Standard applicable to the asset, even if no impairment loss is recognised for the asset.

Measurement of Recoverable Service Amount

24. This Standard defines recoverable service amount as the higher of an asset's net selling price and value in use. Paragraphs 25 to 61 set out the requirements for measuring recoverable service amount.
25. It is not always necessary to determine both an asset's net selling price and its value in use. For example, 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.
26. It may be possible to determine net selling price, even if an asset is not traded in an active market. Paragraphs 31 and 32 set out possible alternative bases for estimating net selling price when an active market for the asset does not exist. However, sometimes it will not be possible to determine net selling price 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 recoverable service amount of the asset may be taken to be its value in use.
27. If there is no reason to believe that an asset's value in use materially exceeds its net selling price, the asset's recoverable service amount may be taken to be its net selling price. 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 its net disposal proceeds. However, for many public sector non-cash flow assets which are held on an ongoing basis to provide specialized services or public goods to the

community, the value in use of the asset is likely to be greater than its net selling price.

28. Recoverable service amount is determined for an individual asset. However, in some cases, governments or government entities may recognise assets on a group basis rather than an individual basis. For example, some may record infrastructure at the network or subsystem level, rather than recording individual assets within a network or subsystem. In such cases, the recoverable service amount may be determined on an “asset group” basis. Professional judgment is used to determine the level at which the Standard is to be applied.
29. In some cases, estimates, averages and computational shortcuts may provide a reasonable approximation of the detailed computations illustrated in this Standard for determining net selling price or value in use.

Net Selling Price

30. The best evidence of an asset's net selling price 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.
31. If there is no binding sale agreement but an asset is traded in an active market, net selling price 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 net selling price, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the estimate is made.
32. If there is no binding sale agreement or active market for an asset, net selling price is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, for 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. Net selling price does not reflect a forced sale, unless management or governing body is compelled to sell immediately.

33. Costs of disposal, other than those that have already been recognised as liabilities, are deducted in determining net selling price. 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 IAS 19, *Employee Benefits*) and costs associated with reducing or reorganising a business following the disposal of an asset are not direct incremental costs to dispose of the asset.

Value in Use

34. IAS 36 defines value in use of a cash flow asset as the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. This involves the application of present value techniques to management estimates of the future net cash inflows generated by the asset using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.
35. This Standard defines the value in use of a non-cash flow asset as the present value of the asset's remaining service potential which also includes the present value of the estimated future cash flows expected to arise from its disposal at the end of its useful life. This necessitates the application of present value techniques to the value of the stream of services expected to be derived from the asset over years of its useful life. This also includes the discounting of the net cash inflows from the disposal of the asset.
36. The management's valuation of future stream of services to be derived from a non-cash flow asset is a difficult task since the services or public goods are delivered to the community free of charge or at a nominal price. That is, the future cash flows generated by the asset do not reflect the value of its service potential. Accordingly, this Standard explores various possible approaches to the determination of the value in use of a non-cash flow assets. These methods draw on the explicit or implicit discounting of the value of services to be derived from the asset over years of its useful life.

Discounted surrogate cash flows approach

37. This approach replicates IAS 36 by estimating surrogate cash inflows relating to services rendered by the asset. This entails the explicit determination of value in use by discounting the service units to be derived over the years of the asset's useful life valued at an appropriate market selling price for those services (surrogate cash flows). Surrogate cash flows reflect cash flows that could be generated if the service potential was sold on the market. The discount rate used would reflect the market assessment of the time value of money and the risks specific to the asset. Paragraphs 53 to 61 include guidance on the use of discount rate to be used in such circumstances.
38. The explicit determination of the value in use of a non-cash flow asset using surrogate cash flows is limited to cases where a comparable asset rendering similar services can be identified in the private sector. In some cases, because of the specific nature of public sector asset, it may not be practicable to determine the value in use of a non-cash flow asset using surrogate cash flows. For example it would be difficult to value the services to be derived from a parliament building or a warship because no market prices for those services exist.

Market value approach

39. Where an explicit determination of the value in use of an asset is not possible, because for example the market price of the units of service to be derived over the useful life of the asset cannot be estimated, but an active market exists for the asset itself, the value in use of the non-cash flow asset may be measured at the market value of the asset. This is a pragmatic approach to the determination of the present value of the remaining service potential of the asset. This approach is based on the use of measurements that reflect an implicit discounting of cash flows that may be generated by the asset as envisaged by market participants.
40. Where an active market for the asset is not available, the entity may use the best available market evidence of the price at which the asset could be exchanged between knowledgeable willing parties in an arm's length transaction, having regard to highest and best use of the asset for which market participants would be prepared to pay in the prevailing circumstances. The evidence includes current market price of an asset that is similar in use,

type and condition (similar asset) and the price of the most recent transaction for the same or a similar asset, provided there has not been a significant change in economic circumstances between the transaction date and the reporting date.

Restoration cost approach

41. Under this approach, the value in use of the asset is determined by subtracting the estimated restoration cost of the asset from the market value of the asset before impairment to arrive at a market-based measure of the impaired asset. This approach is usually used when impairments arise from physical damage to the asset. In the absence of the market value for the asset in its unimpaired state, the current cost of replacing the remaining service potential of the unimpaired asset may be used. This cost is usually determined as the depreciated replacement or reproduction cost of the asset (whichever is lower). The replacement or reproduction cost of an asset is the cost to replace the current level of the asset's service potential when it is new. This cost is depreciated to reflect the asset is in its used condition. Paragraphs 43 and 44 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service units approach

42. This approach determines the value in use of the asset by reducing the market value of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. When a market value for the asset is not available, the current cost of replacing the remaining service potential of the asset in its unimpaired state may be used.

Depreciated replacement cost approach

43. In some cases, because of the specialised nature of a public sector non-cash flow asset, it may not be possible to determine the value in use of the asset using approaches set out in paragraphs 37 to 42. In such cases, provided the entity would replace the remaining service potential of the asset if it is deprived of it, the value in use of the asset may be determined as the lowest cost at which the gross service potential embodied in the asset could be obtained in the normal course of operations less the value of the service potential already consumed. An asset may be replaced either through reproduction (such as specialised assets) or through replacement of its gross service

potential. Therefore, value in use is measured as the 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 the asset with like asset if the asset to be replaced 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 practical capacity per year than is necessary to meet the demand for goods or services the asset provides. To avoid overvaluation, the overdesign and overcapacity features of the asset cannot be overlooked in determining the replacement or reproduction cost of the asset.

Application of approaches

45. 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 where surrogate cash flows for services rendered by the asset can be estimated may be measured using the discounted surrogate cash flows approach;
 - (b) impairments where an active market for the asset exists can be measured using the market value approach;
 - (c) impairments resulting from physical damage may be measured using a restoration cost approach;
 - (d) impairments resulting from significant long-term changes in technological, legal or government policy environment may be measured using a service units approach or depreciated replacement cost approach; and
 - (e) impairments resulting from a significant long-term change in the extent or manner of may be measured using a depreciated replacement cost or a service units approach.

Appendix B sets out examples of various approaches that may be used to determine the value in use of a non-cash flow asset.

Basis and Composition of Estimates of Future Cash Flows

46. *In measuring value in use, projections of surrogate cash flows relating to the continuing use of asset and cash flows from its ultimate disposal should be based on reasonable and supportable assumptions.*
47. In projection of surrogate cash flows, information from budgets, forecasts and other documents regarding the future stream of services derivable over the useful life of the asset and the expected market value of those services would be based on reasonable and supportable assumptions. Such information would represent best estimate by the management or governing body of set of economic conditions that will exist over the remaining useful life of the asset
48. *Estimates of cash flows should include:*
- (a) *projections of surrogate cash inflows from the continuing use of the asset and net cash inflows from its ultimate disposal; and*
 - (b) *projections of cash outflows that are necessarily incurred for continuing use of the asset (including cash outflows to prepare the asset for use) and that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset.*
49. Estimate of surrogate cash flows from the continuing use of the asset, cash flows from its disposal at the end of its useful life and the discount rate would reflect consistent assumptions about price increases due to general inflation. Therefore, if the discount rate includes the effect of price increases due to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases due to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).
50. *The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life should 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

51. 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 net selling price, 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 that have operated under conditions similar to those in which the asset will be used; and
 - (b) those prices are adjusted for the effect of both future price increases due to general inflation and specific future price increases (decreases). However, if estimates of future surrogate cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, this effect is also excluded from the estimate of net cash flows on disposal.

Foreign Currency Future Cash Flows

52. Future surrogate cash flows and cash flows from disposal 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 obtained using the spot exchange rate at the reporting date (described in IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*, as the closing rate).

<p>Paragraphs 53 to 61 are based on IAS 36. Alternative text is provided after para graph 61.</p>

Discount Rate

53. *The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the asset. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted.*

54. 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 or from the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review.
55. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The purpose is to estimate, as far as possible, a market assessment of:
- (a) the time value of money for the period until the end of the asset's useful life; and
 - (b) the risks that the future cash flows (surrogate flows from use or cash flows from disposal of asset) will differ in amount or timing from estimates.
56. As a starting point, the entity may take into account the following rates:
- (a) the entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;
 - (b) the entity's incremental borrowing rate; and
 - (c) other market borrowing rates.
57. These rates are adjusted:
- (a) to reflect the way that the market would assess the specific risks associated with the projected cash flows; and
 - (b) to exclude risks that are not relevant to the projected cash flows.
- Consideration is given to risks such as country risk, currency risk, price risk and cash flow risk.
58. To avoid double counting, the discount rate does not reflect risks for which future cash flow estimates have been adjusted.

59. The discount rate is independent of the entity's capital structure and the way the entity financed the purchase of the asset because the future cash flows expected to arise from an asset do not depend on the way in which the entity financed the purchase of the asset.
60. When the basis for the rate is post-tax, that basis is adjusted to reflect a pre-tax rate.
61. An entity normally uses a single discount rate for the estimate of an asset's value in use. However, an entity uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Alternative text replacing paras. 53 -61

Discount Rate

53. *The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the asset. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted.*
54. 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.
55. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. As a starting point, the entity may take into account the entity's incremental borrowing rate or other market borrowing rates. These rates are then adjusted:
- (a) to reflect the way that the market would assess the specific risks associated with the projected cash flows; and
 - (b) to exclude risks that are not relevant to the projected cash flows.
56. An entity normally uses a single discount rate for the estimate of an asset's value in use. However, an entity uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Recognition and Measurement of an Impairment Loss

62. Paragraphs 63 to 67 set out the requirements for recognising and measuring impairment losses for an individual asset.
63. *If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable service amount. That reduction is an impairment loss.*
64. *An impairment loss should be recognised as an expense in the statement of financial performance immediately.*

65. ***When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity should recognise a liability if, and only if, required by another International Public Sector Accounting Standard.***
66. 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 expense recognised. A liability would be recognised only if another International Public Sector Accounting Standard so requires. An example is when a purpose-built military installation is no longer used and is unlikely to generate cash inflows in other ways. Moreover, 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 International Public Sector Accounting Standard IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.
67. ***After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset should 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.***

Reversal of an Impairment Loss

68. Paragraphs 69 to 79 set out the requirements for reversing an impairment loss recognised for an asset in prior years.
69. ***An entity should assess at each reporting date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the entity should estimate the recoverable service amount of that asset.***
70. ***In assessing whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased, an entity should consider, as a minimum, the following indications:***

External sources of information

- (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;*

Internal sources of information

- (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 capital expenditure that has been incurred during the period to improve or enhance an asset in excess of its most recently assessed standard of performance or a commitment to discontinue or restructure the operation to which the asset belongs;*
- (d) *a decision to resume construction of the asset that was previously halted before it was complete or in a usable condition; and*
- (e) *evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.*

Alternative form of paragraph 70 which follows the “alternative paragraph 18” style and wording:

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

- (a) a significant long-term change with favourable effect on the entity in the extent to which an asset is used;**
- (b) a significant long-term change with favourable effect on the entity in the manner in which the asset is used;**
- (c) significant long-term technological development;**
- (d) resurgence of the demand or need for services provided by the asset;**
- (e) a significant long-term change with favourable effect on the entity in the law, government policy or environment that lifts the limits on the extent to which the asset can be used;**
- (f) a decision to resume the construction of an asset that was previously halted before it was complete or in a usable condition; and**
- (g) evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, better than expected.**

Changes referred to in (a) and (b) include capital expenditure that has been incurred during the period to improve or enhance an asset in excess of its most recently assessed standard of performance or a commitment to discontinue or restructure the operation to which the asset belongs.

71. Indications of a potential decrease in an impairment loss in paragraph 70 mirror the indications of a potential impairment loss in paragraph 18. The concept of materiality applies in identifying whether an impairment loss recognised for an asset in prior years may need to be reversed and the recoverable service amount of the asset determined.

72. The list in paragraph 70 is not exhaustive. An entity may identify other indications of reversal in 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 indicator that the impairment loss may have reversed:
- (i) a significant rise in an asset's market value;
 - (ii) a significant long-term increase in the demand or need for the services provided by the asset; or
 - (iii) a decrease in the market interest rates or other market rates of return on investments during the period that is likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable service amount materially.
73. 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 International Public Sector Accounting Standard applicable to the asset, even if no impairment loss is reversed for the asset.
74. ***An impairment loss recognised for an asset in prior years should 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 should be increased to its recoverable service amount. That increase is a reversal of an impairment loss.***
75. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or 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 service amount (i.e., whether recoverable service amount is based on net selling price or value in use);

- (b) if recoverable service 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 service amount was based on net selling price: a change in estimate of the components of net selling price.
76. ***The increased carrying amount of an asset due to a reversal of an impairment loss should 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.***
77. 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 International Public Sector Accounting Standard applicable to the asset.
78. ***A reversal of an impairment loss for an asset should be recognised as revenue immediately in the statement of financial performance.***
79. ***After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset should 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

80. ***The carrying amount of an asset which is redesignated should be tested for impairment (or reversal of an impairment loss) as at the date of its redesignation if an indicator of impairment (or reversal of an impairment loss) exists at that date.***
81. The redesignation of assets from cash flow assets to non cash-flow assets or from non-cash flow assets to cash flow assets, only occurs 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 comes from, as a minimum, the listed indicators applicable to the asset after redesignation.

Disclosure

82. *For each class of assets, the financial statements should disclose:*

(a) *the amount of impairment losses recognised in the statement of financial performance 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 the statement of financial performance during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed;*

83. A class of assets is a grouping of assets of similar nature and use in an entity's operations.

84. The information required in paragraph 82 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 under IPSAS 17 *Property, Plant and Equipment*.

85. *An entity that applies IPSAS 18 Segment Reporting, should disclose the following for each service and/or the geographical segment reported by the entity:*

(a) *The amount of impairment losses recognised in the statement of financial performance; and*

(b) *the amount of reversals of impairment losses recognised in the statement of financial performance.*

86. *If an impairment loss for an asset is recognised or reversed during the period and is material to the financial statements of the reporting entity as a whole, an entity should disclose:*

(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) *the service and/or geographical segment to which the asset belongs if the entity applies IPSAS 18;*
 - (e) *whether the recoverable service amount of the asset is its net selling price or its value in use;*
 - (f) *if the recoverable service amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and*
 - (g) *if the recoverable service amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use, or the method by which value in use is determined.*
87. *If impairment losses recognised (reversed) during the period are material in aggregate to the financial statements of the reporting entity as a whole, an entity should disclose a brief description of the following:*
- (a) *the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under paragraph 86; and*
 - (b) *the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under paragraph 86.*
88. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.

Transitional Provisions

89. This Standard should be applied on a prospective basis only. Impairment losses (reversals of impairment losses) that result from adoption of this International Public Sector Accounting Standard should be recognised in accordance with this Standard (i.e., in the statement of financial performance).

90. Before the adoption of this Standard, entities may have adopted accounting policies for the recognition and reversal of impairment losses. On adoption of this Standard changes may arise from previous assessments because this Standard details how to measure recoverable service amount. It would be difficult to determine retrospectively what the estimate of recoverable service amount would have been. Therefore, on adoption of this Standard, an entity does not apply the benchmark or the allowed alternative treatment for other changes in accounting policies in IPSAS 3, Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.

Effective Date

91. *This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after XX Month Year. Earlier application is encouraged.*
92. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Glossary of other Defined Terms

The following terms defined in other International Public Sector Accounting Standards (or Exposure Drafts of those Standards) are used in this Standard with the meanings specified.

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Class of property, plant and equipment means 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.

Closing rate is the spot exchange rate at the reporting date.

Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Construction contract is a contract, or a similar binding agreement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity that is under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

Discontinued operation results from the sale or abandonment of an operation that represents a separate, major line of business of an entity and of which the assets, net surplus or deficit and activities can be distinguished physically, operationally and for financial reporting purposes.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Exchange rate is the ratio for exchange of two currencies.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of

assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Extraordinary items are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial asset is any asset that is:

- (a) cash;*
- (b) a contractual right to receive cash or another financial asset from another entity;*
- (c) a contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or*
- (d) an equity instrument of another entity.*

Financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Commodity-based contracts that give either party the right to settle in cash or some other financial instrument should be accounted for as if they were financial instruments, with the exception of commodity contracts that (a) were entered into and continue to meet the entity's expected purchase, sale, or usage requirements, (b) were designated for that purpose at their inception, and (c) are expected to be settled by delivery.

Foreign currency is a currency other than the reporting currency of an entity.

Fundamental errors are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

Inventories are assets:

- (a) *in the form of materials or supplies to be consumed in the production process;*
- (b) *in the form of materials or supplies to be consumed or distributed in the rendering of services;*
- (c) *held for sale or distribution in the ordinary course of operations;*
or
- (d) *in the process of production for sale or distribution*

Investment property *is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:*

- (a) *use in the production or supply of goods or services or for administrative purposes; or*
- (b) *sale in the ordinary course of operations.*

Joint venture *is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.*

Liabilities *are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.*

Materiality: *Information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.*

Net assets/equity *is the residual interest in the assets of the entity after deducting all its liabilities.*

Net surplus/deficit *comprises the following components:*

- (a) *surplus or deficit from ordinary activities; and*
- (b) *extraordinary items.*

Ordinary activities *are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities*

include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Residual value is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

Surplus/deficit from ordinary activities is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.

Economic Entity

The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

Other terms sometimes used to refer to an economic entity include "administrative entity", "financial entity", "consolidated entity" and "group".

An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Fair Value

Guidance on the determination of the fair value of an asset is found in IPSAS 17 *Property, Plant and Equipment*.

Future Economic Benefits or Service Potential

Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are often described as embodying "future economic benefits". To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Net Assets/Equity

"Net assets/equity" is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Appendix A:

Indicators of Impairment— Examples

This appendix sets out some examples of impairment indicated by various indicators discussed in the Standard to assist in clarifying their meaning. It does not form part of the standards.

External sources of information

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

The asset still maintains the same service potential, but demand for that service has ceased. Examples of assets impaired in this manner include:

- (i) A school closed because of a lack of demand in the location around the school (for example, if a city's population has shifted from the downtown area to the suburbs, fewer schools would be needed in the downtown area);
- (ii) A railway line closed due to lack of ridership (for example, the population in a rural area have substantially moved to city due to successive years of draught and those that have stayed behind have switched to the cheaper bus service); and
- (iii) A convention center or stadium whose principal lessee does not renew its lease with the result that the underutilization of the facility is expected to lead to its disclosure.

(b) significant long term changes in the technological environment with an adverse effect on the entity

The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. Examples of assets impaired in this manner are:

- (i) Medical diagnostic equipment that is rarely or never used because a newer machine provides more accurate results (would also meet indicator (a) above);
- (ii) Software that is no longer being supported and the entity does not have the personnel to maintain the software; and

- (iii) Computer hardware that has become obsolete as the result of technological development.
- (c) **Significant long term changes in the legal or government policy environment.**

An asset's service potential may be reduced as a result of a change in a law or regulation. Examples of impairments identified by this indicator include:

- (i) An automobile that does not meet emission standards or a plane that does not meet noise standards;
- (ii) A school that can no longer be used for instruction purposes due to new safety regulations; and
- (iii) A drinking water plant that cannot be used because it does not meet new environmental standards.

Internal sources of information

- (d) **Evidence is available of physical damage of an asset.**

Physical damage would likely result in the asset's being unable to provide the level of service that it once was able to provide. Examples of assets impaired in this way include:

- (i) Equipment that can no longer be repaired or for which repairs are not economically feasible;
- (ii) A building damaged by fire or flood;
- (iii) A building that is closed due to structural deficiencies;
- (iv) Sections of an elevated roadway that have sagged, indicating that that segment of roadway will need to be replaced in 15 years rather than the original design life of 30 years;
- (v) A dam whose spillway has been reduced as a result of a structural assessment;
- (vi) A water treatment plant whose capacity has been reduced by intake blockage (for example, too expensive to fix blockage by zebra mussels),
- (vii) A bridge that is weight-restricted due to identification of structural deficiencies; and

- (viii) A destroyer damaged in a collision.
- (e) **Significant long term changes in the extent to which an asset is used, or is expected to be used, with an adverse effect on the entity.**

If an asset is not being used to the same degree as it was when originally put into service or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. An example of an asset that might be identified as potentially being impaired by this indicator is a mainframe computer that is underutilized because many applications have been converted or developed to operate on servers or PC platforms.

- (f) **Significant long term changes in the manner in which an asset is used, or is expected to be used, with an adverse effect on the entity.**

If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indicator is a school building that is being used for storage rather than for educational purposes.

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

An asset that will not be completed cannot provide the service intended. Examples of assets impaired in this manner include:

- (i) Construction stopped due to identification of an archaeological discovery or environmental condition such as nesting ground for a threatened or endangered species, and
- (ii) Construction stopped due to a decline in the economy.

The circumstances that led to the halting of construction should also be considered. If construction is deferred, that is, postponed to a specific, foreseeable future date, the project could still be treated as work in progress and is not considered as halted.

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

Internal reports of public sector entities may indicate that an asset is not performing as expected or its performance is deteriorating over time. For example an internal health department report on a rural clinic may

indicate that due to changes in the demographics of the area, the demand for the clinic services has sharply declined.

Appendix B: Measurement of Impairment Loss — Examples

This appendix illustrates the application of the standards to assist in clarifying their meaning. It does not form part of the standards. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Standard or to indicate the Committee's endorsement of the situations or methods illustrated. Application of the provisions of this Standard may require assessment of facts and circumstances other than those illustrated here.

Note: *In the following examples, it is assumed that the net selling price of the asset tested for impairment is less than its value in use or is not determinable. Therefore, the asset's recoverable service amount is equal to its value in use.*

Example 1 — Discounted Surrogate Cash Flows Approach

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use—Material decline in enrolment

In 1968, the Waverly School District constructed the Hume Secondary School at the cost of 15,000,000 currency units. The entity estimated the school would be used for 40 years. In 2002, the enrolment declined from 1000 to 600 students as the result of scholarships granted by private schools to talented students in the District. It is believed that the scholarship programme will continue to attract the students that would otherwise have enrolled at the public school. The average variable cost and other attributable costs per student in 2002 was 500 currency units which is expected to grow at the rate of 2 percent annually for the remaining useful life of the school. The enrolment is expected not to undergo further change. In 2004, maintenance expenditure of 200,000 currency units will be incurred to insulate the roofs.

The private schools in the area charge an annual fee of 1,200 currency units per student which is expected to grow at the rate of 2 percent each year. The market required rate of return for investment in private schools is 15 percent per annum.

Evaluation of Impairment

Impairment is indicated because of reduction in number of students from 1000 students to 600 students. The reduction in the extent of use is

significant and the enrolment is expected to remain at the reduced level for foreseeable future. Impairment loss using discounted surrogate cash flow method is determined as follows:

a	Acquisition cost 1968	15,000,000		
b	Accumulated depreciation 2002 (ax35/40)	<u>13,125,000</u>		
c	Carrying amount 2002	<u>1,875,000</u>		
			Estimate of	
			future net	
			cash inflows	
			Discount	Discounted
			factor 15%	cash inflows
2003	(1,200-500)x600	420,000	0.8695652	365,217
2004		428,400	0.7561437	323,932
2005		436,968	0.6575162	287,314
2006		445,707	0.5717532	254,835
2007		454,622	0.4971767	<u>226,027</u>
				1,457,325
	Maintenance expenditure 2004	200,000	0.7561437	151,229
	Net disposal proceeds 2005	500,000	0.4971767	<u>248,588</u>
d	PV of net cash inflows			<u>1,554,684</u>
c-d	Impairment loss	<u>320,316</u>		

Example 2 — Discounted Surrogate Cash Flows Approach

Significant Long Term Change with an Adverse Effect on the Entity, in the Extent of Use— X-ray diagnostic machine that is underutilized

In 1998 Mornington Public Dental Clinic purchased a new X-ray machine at a cost of 20 million currency units. The Clinic estimated that the useful life of the machine would be 200,000 X-ray images over 10 years. In 2002, a more advanced machine was on the market and the clinic purchased the new model because it produced more accurate images. The acquisition of the new machine reduced the demand for the services of the old machine by 50 percent. The clinic estimates that the old machine will be used at the rate of 10,000 images per year until 2006, when it is expected to be disposed of with net proceeds of 2,000,000

currency units. The variable and other attributable costs of production per unit is estimated as 400 currency units over this period.

Private clinics in the area continue to use machines of the old type and charge 500 currency units for each image produced. This price is expected to prevail for the next 5 years. The required rate of return on investing in diagnostic clinics is 12% per annum.

Evaluation of Impairment

Impairment is indicated because the extent of use of the machine has changed from 20,000 X-ray images per year to 10,000 images per year for the remaining useful life of the asset. The reduction in the extent of use is significant and the reduction in demand for X-ray images produced by the machine is of long-term nature. Impairment loss using discounted surrogate cash flow approach is as follows:

a	Acquisition cost 1998	20,000,000		
b	Accumulated depreciation 2002 (ax5/10)	10,000,000		
c	Carrying amount 2002	<u>10,000,000</u>		
			Estimate of	
			future net	Discount
			cash inflows	factor 12%
				Discounted
				cash inflows
	2003	(500-400)x10,000	1,000,000	0.8928571
	2004		1,000,000	0.7763975
	2005		1,000,000	0.6751283
	2006		1,000,000	0.5870681
	2007		1,000,000	0.5104940
				<u>3,441,945</u>
	Net disposal proceeds 2007	2,000,000	0.5104940	<u>1,020,988</u>
d	PV of net cash inflows			<u>4,462,933</u>
c-d	Impairment loss			<u>5,537,067</u>

Example 3 — Discounted Surrogate Cash Flows Approach

Significant Long Term Change with an Adverse Effect on the Entity, in the Legal or Government Policy Environment — Children swimming pools closed

Aquatic Swimming Complex was constructed by Kooyang City Council at a cost of 24,000,000 currency units on the outskirts of Kooyang in 1977. The council estimated a useful life of 30 years for the pools. The swimming complex consists of two pools for the adults and three pools for children. The use of the swimming pools is free of charge. The water for the pools is provided by two existing wells in the vicinity of the Complex.

In 2002, after the incurrance of illness among the children using the complex, the local health department banned the use of well water in swimming pools used by children. With no alternative source of water available, the city council decided to close down the children swimming pools and it does not intend to reopen the pools in the foreseeable future.

As the result of this decision, the annual patrons of 250,000 children did not use the facility and the number of adult patrons fell from 150,000 to 120,000 a year. The Council estimates that this level of patronage can be sustained. Similar privately owned swimming pools in the area charge the adults a fee of 5 currency units and the children a fee of 3 currency units. These fees are expected to remain stable for the next 4 years. The Complex building is expected to have a disposal value of 2,000,000 currency units at the end of its useful life. The variable and all attributable cost of providing service to each patron is 2 currency units over the remaining life of the asset. A rate of return of 15 percent is required by investors in swimming complexes.

Evaluation of Impairment

Impairment is indicated because of the fall in the extent of use of the asset arising from regulations. The reduction in the extent of use is significant and the patronage expected to remain at the reduced level for foreseeable future. Impairment loss using discounted surrogate cash flow method is determined as follows:

a	Acquisition cost 1977	24,000,000
b	Accumulated depreciation 2002	<u>20,800,000</u>
c	Carrying amount 2002	<u><u>3,200,000</u></u>

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		Estimate of future net cash inflow	Discount factor 15%	Discounted cash inflows
2003	(5-2)x120000	360,000	0.8695652	313,043
2004		360,000	0.7561437	272,212
2005		360,000	0.6575162	236,706
2006		360,000	0.5717532	205,831
				-
				1,027,792
	Net disposal proceeds 2005	2,000,000	0.5717532	1,143,506
d	PV of net cash inflows			2,171,299
d - c	Impairment loss	1,028,701		

Example 4 — Market Value Approach

Significant Long-term Change with Adverse Effect on the Entity in the extent of Use—High rise building partially unoccupied

In 1988, Ormong City Council constructed a 20 storey office building for the Council in downtown Ormong at the cost of 80,000,000 currency units. The Building is expected to have a useful life of 40 years. In 2002, Federal Safety Regulations required that the top 4 stories of high rise buildings should be left unoccupied for foreseeable future. The building has a market value of 70,000,000 currency units in 2002 after regulations came into force.

Evaluation of Impairment

Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new Federal Safety Regulations. The reduction in the extent of use is significant and the occupation of the building is expected to remain at the reduced level for foreseeable future. Impairment loss using market value approach would be determined as follows:

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Example 5 — Restoration Cost Approach

Physical Damage — School bus damaged in road accident

In 1998, North District Primary School acquired a bus at the cost of 200,000 currency units to help students from a nearby village with commuting free of charge. The School estimated a useful life of 10 years for the bus. In 2002, the bus sustained damage in a road accident requiring 25,000 currency units to be restored to a usable condition. The restoration will not affect the useful life of the asset. The bus had a market value of 110,000 currency units before the road accident.

Evaluation of Impairment

Impairment is indicated because the bus has sustained physical damage in the road accident. Impairment loss using restoration cost approach would be determined as follows:

Acquisition cost 1998	200,000
Accumulated depreciation (a/10X5)	100,000
Carrying Amount 2002	100,000
Market value before accident	110,000
Less: restoration cost	25,000
Market value in the damaged state	85,000
Impairment loss	5,000

Example 6— Restoration Cost Approach

Physical damage—Destroyer damaged on collision with oil tanker

In 1993 the defence ministry of country Z purchased a destroyer at the cost of 500,000,000 currency units. The destroyer was estimated to have a useful life of 20 years. In 2002, the destroyer was involved in a collision with an oil tanker resulting in damage from the collision and the fire that ensued. It would take three years to restore the destroyer to its condition before collision. The restoration cost of 90,000,000 currency units are to be paid in three annual equal instalments over the next three years.

The destroyer's current replacement cost is 750,000,000 currency units. The market discount rate is 10 percent.

Evaluation of Impairment

Impairment is indicated because the destroyer has sustained physical damage. Impairment loss using restoration cost approach would be determined as follows:

a	Acquisition cost 1993		700,000,000	
b	Accumulated depreciation 2002		350,000,000	
c	Carrying amount 2002		350,000,000	
	Replacement cost 2002		750,000,000	
	Accumulated depreciation 2002		375,000,000	
d	Depreciated replacement cost		375,000,000	
	Less: PV of restoration costs:			
				Discounted
		Cash	Discount	cash
		outflows	factor 10%	outflows
	2003	30,000,000	0.9090909	27,272,727
	2004	30,000,000	0.8264463	24,793,388
	2005	30,000,000	0.7513148	22,539,444
e	PV of restoration costs			52,066,116
f	Depreciated replacement cost			
	in damaged state (d - e)		322,933,884	
	Impairment loss (f - c)		27,066,116	

Example 7— Restoration Cost Approach

Physical damage—Building damaged by fire

In 1983, the City of Moreland built an office building at a cost of 50,000,000 currency units. The building was expected to provide service for 40 years. In 2002, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed and structural repairs costing 35 million currency units are to be made to restore the office building to an occupiable condition. Assume that all

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the restoration costs are capitalizable. The replacement cost of a new office building is 100,000,000 currency units.

Evaluation of Impairment

Impairment is indicated because the office building has sustained physical damage due to fire at the premises. Impairment loss using restoration cost approach would be determined as follows:

a	Acquisition cost, 1995	50,000,000
b	Accumulated depreciation 2002 (ax19/ 40)	<u>23,750,000</u>
c	Carrying amount, 2002	<u>26,250,000</u>
d	Replacement cost (of a new building)	100,000,000
e	Accumulated depreciation (dx19/ 40)	<u>47,500,000</u>
f	Depreciated replacement cost (undamaged)	52,500,000
g	Less: restoration cost	<u>35,000,000</u>
h	Depreciated replacement cost (in damaged state)	<u>17,000,000</u>
i	Impairment loss (c- i)	<u>9,250,000</u>

Example 8 — Service Units Approach

Significant Long-term Change with Adverse Effect on the Entity in the extent of Use—School partially closed due to decline in enrolment

In 1982, the Lutton School District constructed a school at the cost of 2,500,000 currency units. The entity estimated the school would be used for 40 years. In 2002, the enrolment declined from 1000 to 200 students as the result of bankruptcy of a major employer in the area. The management decided to close the top two floors of the three story school building. The current replacement cost of the school is estimated at 4 million currency units.

Evaluation of Impairment

Impairment is indicated because the extent of use of the school has changed from three floors to one floor as the result of reduction in number of students from 1000 students to 200 students. The reduction in the extent of use is significant and the enrolment is expected to remain at

the reduced level for foreseeable future. Impairment loss using service units approach would be determined as follows:

a	Acquisition cost, 1982	2,500,000
	Accumulated depreciation 2002 (ax20/40)	<u>1,250,000</u>
b	Carrying amount 2002	<u><u>1,250,000</u></u>
c	Replacement cost	4,000,000
	Accumulated depreciation (cx20/40)	<u>2,000,000</u>
d	Depreciated replacement cost	<u><u>2,000,000</u></u>
	Depreciated replacement cost	
e	of one floor being used (d/3)	<u><u>666,667</u></u>
	e - b Impairment loss	<u><u>583,333</u></u>

Example 9 — Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Technological Environment —Underutilized mainframe computer

In 1998, the City of Veyena purchased a new mainframe computer at a cost of 10 million currency units. Veyena estimated that the useful life of the computer would be seven years and that on average 80 percent of central processing unit (CPU) capacity would be used by the various departments. A buffer of CPU time of 20 percent was expected and needed to accommodate scheduling jobs to meet deadlines. Within a few months after acquisition, CPU usage reached 80 percent, but declined to 20 percent in 2002 because many applications of the departments were converted to run on desktop computers or servers. A computer is available on the market at the price of 500,000 currency units that can provide the remaining service potential of the mainframe computer using the remaining applications.

Evaluation of Impairment

The indicator of impairment is the significant long term change in technological environment resulting in conversion of applications from the mainframe to other platforms and therefore decreased usage of the

mainframe computer. Impairment loss is determined using the depreciated replacement cost approach as follows:

a	Acquisition cost 1998	10,000,000
b	Accumulated depreciation 2002 (a x 4 / 7)	<u>5,714,286</u>
c	Carrying amount (a –b)	<u>4,285,714</u>
d	Replacement cost	500,000
e	Accumulated depreciation 2002 (d x4 / 7)	<u>285,714</u>
f	Depreciated replacement cost	<u>214, 286</u>
	Impairment loss (f – c)	<u>4,071,428</u>

Example 10— Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Manner of Use—School Used for Storage

Assumptions

In 1996, Lunden School District constructed an elementary school at a cost of 10 million currency units. The estimated useful life of the school is fifty years. In 2002, the school is closed because enrolments in the district declined unexpectedly due to the bankruptcy of the major employer in the area. The school is converted to use as storage, and Lunden School District has no evidence that enrolments will increase in the future such that the building would be reopened for use as a school. The current replacement cost for a warehouse of the same size as the school is 4.2 million currency units.

Evaluation of Impairment

Impairment is indicated because the manner of use of the school has changed significantly from place for instructing students to storage for the foreseeable future. Impairment loss using depreciated replacement cost approach would be determined as follows:

a	Historical cost, 1996	10,000,000
	Accumulated depreciation (a x 6 / 50 years)	<u>1,200,000</u>
b	Carrying amount, 2002	<u>8,800,000</u>

c	Replacement cost of warehouse, 2002	4,200,000
	accumulated depreciation (cx6 /50 years)	504,000
d	Depreciated replacement cost	<u>3,696,000</u>
	Impairment loss (d - b)	<u>5,104,000</u>

Appendix C: Basis for Conclusions

This appendix gives reasons for supporting certain solutions related to the accounting for impairment of assets.

Measurement of Recoverable Service Amount

- C1. The core accrual International Public Accounting Standards (IPSASs) are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB) to the extent that the requirements of those Standards are applicable to the public sector. As a prelude to this Exposure Draft, the Invitation to Comment *Impairment of assets* (ITC) issued in 2000 proposed and explained the approach to accounting for impairment of assets in public sector which was a surrogate for the approach taken by IAS 36 *Impairment of Assets*.
- C1. In formulating the proposals in this Exposure Draft, the Committee continued the above policy and decided that the principles underpinning the measurement of impairment need be based on the approach adopted by IAS 36 *Impairment of Assets*. IAS 36 requires entities to determine the recoverable amount of an asset if there are indications that the asset is impaired. The recoverable amount of an asset is defined as the higher of value in use and net selling price of the asset.
- C2. IAS 36 requires the entities to determine value in use as the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. The service potential of cash flow assets is reflected by their ability to generate future cash flows. This requirement is applicable to cash flow assets held by public sector and the committee required the application of IAS 36 to account for impairment of cash flow assets in the public sector. The committee's decision that an IPSAS on impairment of non-cash flow assets should replicate the measurement approach in IAS 36 required the adoption of a concept of value in use that was applicable to non-cash flow assets employed in public sector.
- C3. In considering the principles underpinning a value in use concept applicable to non-cash flow assets, the Committee

agreed that the value in use of a non-cash flow asset should be measured as the present value of the remaining service potential of the asset. This replicates the approach taken by IAS 36 and requires the discounting of the stream of services derived from the asset over its years of useful life which also includes the discounting of the net cash inflows from the disposal of the asset.

- C4. The determination of the present value of the remaining service potential may be approached in two ways. The first approach is the explicit determination requiring the discounting of the service units valued at an appropriate price (surrogate cash flows) using an appropriate discount rate. The second approach is to use a measurement such as market value reflecting an implicit discounting of those cash flows.
- C5. In case of cash flow assets, the cash inflows and outflows from the use of asset and from its ultimate disposal are estimated by management. However, IAS 36 includes requirements to prevent the entity from using assumptions different from the market place that are unjustified. For example, an entity is required to determine value in use using:
- (a) cash flow projections based on reasonable and supportable assumptions and giving greater weight to external evidence; and
 - (b) a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
- C6. In case of non-cash flow assets, to replicate the discounting technique used by IAS 36 in the determination of the value in use, the entity need to estimate cash flows that would have arisen had the entity sold its services or other outputs on the market. This estimation is inevitable since services derived from an asset are provided free of charge or at a nominal charge to the community and as such there is no internal evidence to assist the management in assessing the surrogate cash inflows from services rendered by the entity. However, the entity would be able to rely on internal documents, budgets and forecasts to estimate the cash outflows associated with the operating of the asset.
- C7. The estimation of surrogate cash flows for the determination of value in use in case of non-cash flow assets necessitates

additional reliance on market based parameters such as the market price of services provided by the entity. This reduces the role of management in the estimation of surrogate cash flows from an entity standpoint.

Proxies for the Value in Use

- C8. A pragmatic approach to the determination of the present value of the remaining service potential of a non-cash flow asset is the use of other measurements that reflect an implicit discounting of cash flows as envisaged by market participants. The most appropriate candidate in this respect is market value. The Committee's reasons for use of market value as an appropriate proxy for value in use of non-cash flow assets are as follows:
- (a) The determination of value in use based on the use of discounting techniques is not practical in majority of cases. Except in cases where an equivalent service is provided by the private sector, the reliable estimation of surrogate cash flows relating to the asset is not possible.
 - (b) This Standard does not require impairment test for assets regularly revalued at fair value under IPSAS 17 on the grounds that assets measured at fair value can not be impaired. When assets are in continuing use, the measurement of value in use at market value (which is the first candidate for determining fair value) will result in a recoverable service amount equal to the fair value of the asset. This results in consistency in the measurement of impairment for both assets held at cost and assets held at revaluation under IPSAS 17.
 - (c) The definition of net selling price adopted by the Standard is similar to the definition of "net market value". The use of market value as a proxy for value in use is not subject to the criticism that determining recoverable service amount as the higher of net selling price and value in use (as discounted cash flows perceived by the entity) is tantamount to determining two diverging measures of recoverable service amount.

Impairment of Non-Cash Flow Assets Held by Government Business Enterprises (GBEs)

C.9 This Standard requires that the impairment of all assets held by GBEs be accounted for under IAS 36, *Impairment of Assets*. GBEs are profit oriented entities and the assets employed by them are primarily cash flow assets. The Committee believes it is more appropriate to account for the impairment of non-cash flow assets held by GBEs under IAS 36 for the following reasons:

- (a) Those GBE's that hold non-cash flow assets do so to dispose of their community service obligations as required by regulations. The acceptance of such obligations often acts as a precondition for engaging in profit making operations. Accordingly, non-cash flow assets are regarded as an integral part of cash generating operations. An analogy may be drawn with additional expenditure that a private sector entity is required to incur for the installation of equipments to reduce the emission of harmful gases. Such expenditure is required under the safety regulations and cannot be avoided if the entity is to carry out its operations. As such, such expenditure is a precondition for the performance of activities and an integral part of the costs of operations.
- (b) Non-cash flow assets held by GBEs to carry out their community service obligations are often not material compared with the cash flow assets. In such cases, in addition to reason noted in (a) above, cost benefit considerations may not warrant accounting for impairment of non-cash flow assets separately.
- (c) The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.

Accordingly, non-cash flow assets are expected to be appropriately grouped with cash flow assets of GBEs to form a cash generating unit to be tested for impairment in accordance with IAS 36.

Impairment of Goodwill

- C.10 The Standard does not deal with the impairment of goodwill and other intangible assets with infinite useful lives. There are no IPSASs dealing with such items. IAS 22 deals with the goodwill that arises in a business combination. IAS 36 stipulates that goodwill does not generate cash flows independently from other assets or groups of assets and, therefore, the recoverable amount of goodwill as an individual asset cannot be determined. Accordingly its impairment is dealt with as part of a cash generating unit under IAS 36.

Comparison with IAS 36

International Public Sector Accounting Standard IPSAS XX *Impairment of Assets* deals with the impairment of non-cash flow assets. The main differences between IPSAS XX and IAS 36 *Impairment of Assets* are as follows:

- IPSAS XX deals with the impairment of non-cash flow assets of the public sector entities while IAS 36 deals with the impairment of cash-flow assets of private sector enterprises. IPSAS XX, however, requires that the impairment of cash flow assets of public sector entities including those of Government Business Enterprises be accounted for under IAS 36.
- Except where surrogate cash flows are used, the measurement of value in use under IPSAS XX is different from that under IAS 36 in that IPSAS XX measures the value in use of a non-cash flow asset as the present value of the asset's remaining service potential using a number of different approaches while IAS 36 measures value in use as the present value of future cash flows from the asset.
- IPSAS XX does not give prominence to the change in the market value of the asset as an indicator of impairment. The change in market value appears in black letter in IAS 36 as part of the minimum set of indicators while IPSAS XX refers to it in commentary.
- IPSAS XX has requirements to deal with the impairment of redesignated assets. IAS 36 need not deal with this issue as its scope is limited to cash flow assets.
- IPSAS XX deals with the impairment of individual assets. There is no equivalent in IPSAS XX for cash generating unit defined in IAS 36.
- IPSAS XX uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "entity", "revenue", "recoverable service amount" "statement of financial performance", and "statement of financial position" in IPSAS XX. The equivalent terms in IAS 36 are "enterprise", "income", "recoverable amount", "income statement", and "balance sheet".
- IPSAS XX contains many of the definitions of technical terms used in IAS 36 and an additional glossary of other defined terms.