INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

IPSAS 26—IMPAIRMENT OF CASH-GENERATING ASSETS

International Federation of Accountants®
529 Fifth Avenue
New York, New York 10017 USA

This publication was published by the International Federation of Accountants (IFAC®). Its mission is to serve the public interest and strengthen the accountancy profession by supporting the development of high-quality international standards, promoting the adoption and implementation of these standards, building the capacity of professional accountancy organizations, and speaking out on public interest issues.

ISBN: 978-1-60815-458-6

Published by:

International Federation of Accountants®

IPSAS 26—IMPAIRMENT OF CASH-GENERATING ASSETS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS) 36, *Impairment of Assets*, published by the International Accounting Standards Board (IASB). Extracts from IAS 36 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

The approved text of the International Financial Reporting Standards (IFRSs) is that published by the IASB in the English language, and copies may be obtained directly from IFRS Foundation, Customer Service, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD, United Kingdom.

E-mail: publications@ifrs.org

Internet: www.ifrs.org

IPSAS 26—IMPAIRMENT OF CASH-GENERATING ASSETS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2021.

IPSAS 26, *Impairment of Cash-Generating Assets* was issued in February 2008.

Since then, IPSAS 26 has been amended by the following IPSASs:

- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) (issued July 2016)
- *The Applicability of IPSASs* (issued April 2016)
- *Improvements to IPSASs 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (issued January 2015)
- *Improvements to IPSASs 2011* (issued October 2011)
- *Improvements to IPSASs* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)
- *Improvements to IPSASs* (issued November 2010)

Table of Amended Paragraphs in IPSAS 26

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	Improvements to IPSASs October 2011
2	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010 IPSAS 31 January 2010 Improvements to IPSASs April 2016 Impairment of Revalued Assets July 2016 IPSAS 39 July 2016 IPSAS 40 January 2017 IPSAS 41 August 2018
3	Deleted	The Applicability of IPSASs April 2016
4	Deleted	The Applicability of IPSASs April 2016

Paragraph Affected	How Affected	Affected By
5	Amended	The Applicability of IPSASs April 2016
6	Deleted	Impairment of Revalued Assets July 2016
7	Deleted	IPSAS 40 January 2017
8	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010 Improvements to IPSASs April 2016
9	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
11	Deleted	Impairment of Revalued Assets July 2016
12	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015 IPSAS 41 August 2018
18	Amended	The Applicability of IPSASs April 2016
18A	New	IPSAS 40 January 2017
20A	New	IPSAS 40 January 2017
23	Amended	IPSAS 40 January 2017
27	Amended	Improvements to IPSASs November 2010
33	Amended	Improvements to IPSASs April 2016
71	Amended	IPSAS 40 January 2017
73	Amended	Impairment of Revalued Assets July 2016
73A	Amended	Improvements to IPSAS January 2020 Impairment of Revalued Assets July 2016
76	Amended	IPSAS 40 January 2017
88	Amended	IPSAS 40 January 2017
90A	New	IPSAS 40 January 2017
90B	New	IPSAS 40 January 2017
90C	New	IPSAS 40 January 2017
90D	New	IPSAS 40 January 2017
90E	New	IPSAS 40 January 2017
90F	New	IPSAS 40 January 2017
90G	New	IPSAS 40 January 2017
90H	New	IPSAS 40 January 2017
90I	New	IPSAS 40 January 2017
90J	New	IPSAS 40 January 2017
90K	New	IPSAS 40 January 2017
90L	New	IPSAS 40 January 2017
90M	New	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
90N	New	IPSAS 40 January 2017
90O	New	IPSAS 40 January 2017
91	Amended	IPSAS 40 January 2017
92	Amended	IPSAS 40 January 2017
96	Deleted	IPSAS 40 January 2017
97A	New	IPSAS 40 January 2017
97B	New	IPSAS 40 January 2017
97C	New	IPSAS 40 January 2017
97D	New	IPSAS 40 January 2017
97E	New	IPSAS 40 January 2017
97F	New	IPSAS 40 January 2017
97G	New	IPSAS 40 January 2017
97H	New	IPSAS 40 January 2017
98	Amended	IPSAS 40 January 2017
99	Amended	IPSAS 40 January 2017
100	Amended	IPSAS 40 January 2017
102	Amended	IPSAS 40 January 2017
103	Amended	IPSAS 40 January 2017
106	Amended	IPSAS 40 January 2017
107	Amended	IPSAS 40 January 2017
108	Amended	Impairment of Revalued Assets July 2016 IPSAS 40 January 2017
108A	Amended	Improvements to IPSAS January 2020 Impairment of Revalued Assets July 2016
110	Amended	IPSAS 40 January 2017
111	Amended	IPSAS 40 January 2017
111A	New	IPSAS 40 January 2017
111B	New	IPSAS 40 January 2017
115	Amended	Impairment of Revalued Assets July 2016
120	Amended	IPSAS 40 January 2017
122	Amended	IPSAS 40 January 2017
122A	New	IPSAS 40 January 2017
123	Amended	Improvements to IPSASs January 2010 IPSAS 40 January 2017
124	Amended	Impairment of Revalued Assets July 2016 IPSAS 40 January 2017
125	Amended	IPSAS 40 January 2017
126A	New	Improvements to IPSASs January 2010

Paragraph Affected	How Affected	Affected By
126B	New	Improvements to IPSASs January 2010
126C	New	IPSAS 31 January 2010
126D	New	IPSAS 33 January 2015
126E	New	IPSAS 35 January 2015
126F	New	Improvements to IPSASs April 2016
126G	New	The Applicability of IPSASs April 2016
126H	New	Impairment of Revalued Assets July 2016
126I	New	IPSAS 39 July 2016
126J	New	IPSAS 40 January 2017
126K	Amended	COVID-19: Deferral of Effective Dates November 2020
126L	New	Improvements to IPSAS January 2020
127	Amended	IPSAS 33 January 2015

IPSAS 26—IMPAIRMENT OF CASH-GENERATING ASSETS

CONTENTS

International Public Sector Accounting Standard 26, *Impairment of Cash-Generating Assets*, is set out in paragraphs 1–127. All the paragraphs have equal authority. IPSAS 26 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

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

Scope

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

   (a) **Inventories (see IPSAS 12, *Inventories*);**

   (b) **Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*);**

   (c) **Financial assets that are within the scope of IPSAS 41, *Financial Instruments*;**

   (d) **Investment property that is measured at fair value (see IPSAS 16, *Investment Property*);**

   (e) [Deleted]

   (f) **Deferred tax assets (see the relevant international or national accounting standard dealing with deferred tax assets);**

   (g) **Assets arising from employee benefits (see IPSAS 39, *Employee Benefits*);**

   (h) [Deleted]

   (i) [Deleted]

   (j) **Biological assets related to agricultural activity within the scope of IPSAS 27, *Agriculture* that are measured at fair value less costs to sell;**

   (k) **Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts; and**

   (l) [Deleted]

   (m) **Other cash-generating assets in respect of which accounting requirements for impairment are included in another Standard.**

3. [Deleted]

4. [Deleted]

5. Public sector entities that hold non-cash-generating assets as defined in paragraph 13 apply IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to such assets. Public sector entities that hold cash-generating assets apply the requirements of this Standard.

6. [Deleted]

7. [Deleted]

8. This Standard does not apply to inventories and cash-generating assets arising from construction contracts, because existing standards applicable to these assets contain requirements for recognizing and measuring such assets. This Standard does not apply to deferred tax assets, assets related to employee benefits, or deferred acquisition costs and intangible assets arising from an insurer's contractual rights under insurance contracts. The impairment of such assets is addressed in the relevant international or national accounting standards. In addition, this Standard does not apply to biological assets related to agricultural activity that are measured at fair value less costs to sell. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

9. This Standard does not apply to any financial assets that are included in the scope of IPSAS 28, *Financial Instruments: Presentation*. Impairment of these assets is dealt with in IPSAS 41.

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

11. [Deleted]

12. Investments in:

    (a) Controlled entities, as defined in IPSAS 35, *Consolidated Financial Statements*;

    (b) Associates, as defined in IPSAS 36, *Investments in Associates and Joint Ventures*; and

    (c) Joint arrangements, as defined in IPSAS 37, *Joint Arrangements*,

    are financial assets that are excluded from the scope of IPSAS 41. Where such investments are in the nature of cash-generating assets, they are dealt with under this Standard. Where these assets are in the nature of non-cash-generating assets, they are dealt with under IPSAS 21.

Definitions

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

    A <u>cash-generating unit</u> is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

    <u>Recoverable amount</u> is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.

    <u>Value in use of a cash-generating asset</u> is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

    Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Cash-Generating Assets

14. Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a "commercial return" indicates that an entity intends to (a) generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and (b) earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to "an asset" or "assets" in the following paragraphs of this Standard are references to "cash-generating asset(s)."

15. There are a number of circumstances in which public sector entities may hold some assets with the primary objective of generating a commercial return, although the majority of their assets are not held for that purpose. For example, a hospital may deploy a building for fee-paying patients. Cash-generating assets of a public sector entity may operate independently of the non-cash-generating assets of the entity. For example, the deeds office may earn land registration fees independently from the department of land affairs.

16. In certain instances, an asset may generate cash flows although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

17. In other instances an asset may generate cash flows and also be used for non-cash-generating purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or IPSAS 21. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies this Standard, rather than IPSAS 21.

18. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent

to which the asset generates cash flows is so significant that this Standard is applicable, rather than IPSAS 21. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets and with the related guidance in paragraphs 14–17. Paragraph 114 requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of public sector entities, the presumption is that assets are non-cash-generating in these circumstances and, therefore, IPSAS 21 will apply.

18A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. IPSAS 21 deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in IPSAS 21 includes service potential. Consequently, an entity applies this Standard to determine whether to impair goodwill.

Depreciation

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

Impairment

20. IPSAS 21 defines an "impairment" as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. Impairment of a cash-generating asset, therefore, reflects a decline in the future economic benefits or service potential embodied in an asset to the entity that controls it. For example, an entity may have a municipal parking garage that is currently being used at 25 percent of capacity. It is held for commercial purposes, and management has estimated that it generates a commercial rate of return when usage is at 75 percent of capacity and above. The decline in usage has not been accompanied by a significant increase in parking charges. The asset is regarded as impaired because its carrying amount exceeds its recoverable amount.

Identifying an Asset that may be Impaired

20A. Paragraphs 21–30 specify when recoverable amount shall be determined. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows:

(a) Paragraphs 31–70 set out the requirements for measuring recoverable amount. These requirements also use the term 'an asset' but apply equally to an individual asset and a cash-generating unit.

(b) Paragraphs 71–97 set out the requirements for recognizing and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 71–75. Paragraphs 76–97 deal with the recognition and measurement of impairment losses for cash-generating units and goodwill.

(c) Paragraphs 98–105 set out the requirements for reversing an impairment loss recognized in prior periods for an asset or a cash-generating unit. Again, these requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109, for a cash-generating unit in paragraphs 110–111, and for goodwill in paragraphs 111A–111B.

(d) Paragraphs 112–113 set out the requirements for the redesignation of an asset from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset.

(e) Paragraphs 114–122A specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. Paragraphs 123–125 specify additional disclosure requirements for cash-generating units to which goodwill or intangible assets with indefinite useful lives have been allocated for impairment testing purposes.

21. An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs 25–27 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount. Except for the circumstances described in paragraph 23, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present.

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

23. **Irrespective of whether there is any indication of impairment, an entity shall also:**

(a) **Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**

(b) **Test goodwill acquired in an acquisition for impairment annually in accordance with paragraphs 90A–90O.**

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

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

External sources of information

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

(b) **Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates, or in the market to which an asset is dedicated;**

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

Internal sources of information

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

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

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

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

26. The list in paragraph 25 is not exhaustive. An entity may identify other indications that an asset may be impaired, and these would also require the entity to determine the asset's recoverable amount.

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

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

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

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

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

28. As indicated in paragraph 23, this Standard requires an intangible asset with an indefinite useful life or an intangible asset that is not yet available for use to be tested for impairment, at least annually. Apart from when the requirements in paragraph 23 apply, the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying

amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 25.

29. As an illustration of paragraph 28, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:

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

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

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

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

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

Measuring Recoverable Amount

31. This Standard defines "recoverable amount" as the higher of an asset's fair value less costs to sell and its value in use. Paragraphs 32–70 set out the requirements for measuring recoverable amount. These requirements use the term "an asset" but apply equally to an individual asset or a cash-generating unit.

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

33. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. However, sometimes it will not be possible to determine fair value less costs to sell because there is no basis for making a reliable[1] estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its recoverable amount.

34. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

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

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

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

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

Measuring the Recoverable Amount of an Intangible Asset with an Indefinite Useful Life

37. Paragraph 23 requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

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

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

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

Fair Value less Costs to Sell

38. The best evidence of an asset's fair value less costs to sell is the 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.

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

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

41. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits and costs associated with reducing or reorganizing a business following the disposal of an asset are not direct incremental costs to dispose of the asset.

42. Sometimes, the disposal of an asset would require the buyer to assume a liability, and only a single fair value less costs to sell is available for both the asset and the liability. Paragraph 89 explains how to deal with such cases.

Value in Use

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

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

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

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

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

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

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

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

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

45. The elements identified in paragraph 43(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes. The Application Guidance provides additional guidance on the use of present value techniques in measuring an asset's value in use.

Basis for Estimates of Future Cash Flows

46. **In measuring value in use, an entity shall:**

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

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

(c) **Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.**

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

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

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

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

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

Composition of Estimates of Future Cash Flows

52. **Estimates of future cash flows shall include:**

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

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

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

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

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

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

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

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

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

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

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

(b) **Improving or enhancing the asset's performance.**

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

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

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

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

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

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

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

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

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

63. **Estimates of future cash flows shall not include:**

(a) **Cash inflows or outflows from financing activities; or**

(b) **Income tax receipts or payments.**

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

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

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

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

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

Foreign Currency Future Cash Flows

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

Discount Rate

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

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

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

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

70. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The Application Guidance provides additional guidance on estimating the discount rate in such circumstances.

Recognizing and Measuring an Impairment Loss

71. Paragraphs 72–75 set out the requirements for recognizing and measuring impairment losses for an individual asset other than goodwill. The recognition and measurement of impairment losses for cash-generating units and goodwill are dealt with in paragraphs 76–97H.

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

73. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IPSAS 17 and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

73A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 17. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 17.

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

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

Cash-Generating Units and Goodwill

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

Identifying the Cash-Generating Unit to which an Asset Belongs

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

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

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

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

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

79. As defined in paragraph 13, an asset's cash-generating unit is the smallest group of assets that (a) includes the asset, and (b) generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgment. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

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

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

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

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

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

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

84. If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 120 requires disclosures about the cash-generating unit if an impairment loss is recognized or reversed for the cash-generating unit.

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

85. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 31–70 to an asset is read as a reference to a cash-generating unit.

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

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

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

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

This is because fair value less costs to sell and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognized (see paragraphs 41 and 56).

88. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate, or are used to generate, the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. The Illustrated Decision Tree provides a flow diagram illustrating the treatment of individual assets that are part of cash-generating units. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill. Paragraphs 90A–90O explain how to deal with these assets in testing a cash-generating unit for impairment.

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

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

Goodwill

Allocating goodwill to cash-generating units

90A. **For the purpose of impairment testing, goodwill acquired in an acquisition shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units or groups of units. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, the acquirer shall be considered as the cash-generating unit. Except where goodwill relates to the acquisition of a non-cash-generating operation, each unit or group of units to which the goodwill is so allocated shall:**

(a) **Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and**

(b) **Not be larger than a segment as defined by paragraph 9 of IPSAS 18, *Segment Reporting*.**

90B. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. Goodwill does not generate cash flows, or reductions in net cash outflows, independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, references in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to the acquirer.

90C. Applying the requirements in paragraph 90A results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.

90D. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by IPSAS 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

90E. **If the initial allocation of goodwill acquired in an acquisition cannot be completed before the end of the annual period in which the acquisition is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.**

90F. In accordance with IPSAS 40, *Public Sector Combinations*, if the initial accounting for an acquisition can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

(a) Accounts for the acquisition using those provisional values; and

(b) Recognizes any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognized in the acquisition before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 122A.

90G. **If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:**

(a) **Included in the carrying amount of the operation when determining the gain or loss on disposal; and**

(b) **Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.**

90H. **If an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.**

Testing cash-generating units with goodwill for impairment

90I. **When, as described in paragraph 90B, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph 91.**

90J. If a cash-generating unit described in paragraph 90I includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 23 requires the unit also to be tested for impairment annually.

90K. **A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss in accordance with paragraph 91.**

Timing of impairment tests

90L. **The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-**

generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an acquisition during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

90M. **If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.**

90N. At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognizes any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognizes any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

90O. **The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:**

(a) **The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;**

(b) **The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and**

(c) **Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.**

Impairment Loss for a Cash-Generating Unit

91. **An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units) in the following order:**

(a) **First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and**

(b) **Then, to the other assets of the unit (group of units) on a pro rata basis, based on the carrying amount of each asset in the unit.**

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph 73.

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

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

(b) **Its value in use (if determinable); and**

(c) **Zero.**

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

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

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

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

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

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

96. [Deleted]

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

Impairment testing cash-generating units with goodwill and non-controlling interests

97A. In accordance with IPSAS 40, the acquirer measures and recognizes goodwill as of the acquisition date as the excess of (a) over (b) below:

(a) The aggregate of:

(i) The consideration transferred measured in accordance with IPSAS 40, which generally requires acquisition-date fair value;

(ii) The amount of any non-controlling interest in the acquired operation measured in accordance with IPSAS 40; and

(iii) In an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IPSAS 40.

Allocation of goodwill

97B. Paragraph 90A of this Standard requires goodwill acquired in an acquisition to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units, or groups of units. It is possible that some of the synergies resulting from an acquisition will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for impairment

97C. Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.

97D. If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the controlling entity's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an impairment loss

97E. Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

97F. If a controlled entity, or part of a controlled entity, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97G. If a controlled entity, or part of a controlled entity, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:

(a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and

(b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97H. If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognized in the controlling entity's consolidated financial statements (see paragraph 97D), that impairment is not recognized as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the controlling entity is recognized as a goodwill impairment loss.

Reversing an Impairment Loss

98. Paragraphs 99–105 set out the requirements for reversing an impairment loss recognized for an asset or a cash-generating unit in prior periods. These requirements use the term "an asset," but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109, for a cash-generating unit in paragraphs 110 and 111, and for goodwill in paragraphs 111A and 111B.

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

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

External sources of information

(a) **The asset's market value has increased significantly during the period;**

(b) **Significant changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;**

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

Internal sources of information

(d) **Significant changes with a favorable 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 the manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs;**

(dA) **A decision to resume construction of the asset that was previously halted before it was completed 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.**

101. Indications of a potential decrease in an impairment loss in paragraph 100 mainly mirror the indications of a potential impairment loss in paragraph 25.

102. If there is an indication that an impairment loss recognized for an asset other than goodwill may no longer exist or may have decreased, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value may need to be reviewed and adjusted in accordance with the standard applicable to the asset, even if no impairment loss is reversed for the asset.

103. **An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 106, be increased to its recoverable amount. That increase is a reversal of an impairment loss.**

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

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

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

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

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

Reversing an Impairment Loss for an Individual Asset or Class of Asset

106. **The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.**

107. Any increase in the carrying amount of an asset other than goodwill above the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the standard applicable to the asset.

108. **A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in IPSAS 17 and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

108A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 17. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or IPSAS 17.

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

Reversing an Impairment Loss for a Cash-Generating Unit

110. **A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized in accordance with paragraph 108. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.**

111. **In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 110, the carrying amount of an asset shall not be increased above the lower of:**

(a) **Its recoverable amount (if determinable); and**

(b) **The carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior periods.**

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

Reversing an impairment loss for goodwill

111A. **An impairment loss recognized for goodwill shall not be reversed in a subsequent period.**

111B. IPSAS 31 prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognized for the acquired goodwill.

Redesignation of Assets

112. **The redesignation of an asset from a cash-generating asset to a non-cash- generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. At the subsequent reporting date after a redesignation, an entity shall consider, as a minimum, the listed indications in paragraph 25.**

113. There are circumstances in which public sector entities may decide that it is appropriate to redesignate a cash-generating asset as a non-cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from an industrial estate at commercial rates, and excess capacity has been used to treat effluent from a social housing unit, for which no charge is made. The industrial estate has recently closed and, in future, the site will be developed for social housing purposes. In light of the closure of the industrial estate, the public sector entity decides to redesignate the effluent treatment plant as a non-cash-generating asset.

Disclosure

114. **An entity shall disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.**

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

(a) **The amount of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included.**

(b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed.**

(c) **The amount of impairment losses on revalued assets recognized directly in revaluation surplus during the period; and**

(d) **The amount of reversals of impairment losses on revalued assets recognized directly in revaluation surplus during the period.**

116. In some cases it may be not be clear whether the primary objective of holding an asset is to generate a commercial return. That judgment is needed to determine whether to apply this Standard or IPSAS 21. Paragraph 114 requires the disclosure of the criteria used for distinguishing cash-generating and non-cash-generating assets.

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

118. The information required in paragraph 115 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment at the beginning and end of the period, as required by IPSAS 17.

119. **An entity that reports segment information in accordance with IPSAS 18, *Segment Reporting*, shall disclose the following for each reported segment based on an entity's reporting format:**

(a) **The amount of impairment losses recognized in surplus or deficit during the period; and**

(b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period.**

120. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period for a cash-generating asset (including goodwill) or a cash-generating unit:**

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

   (b) **The amount of the impairment loss recognized or reversed;**

   (c) **For a cash-generating asset:**

      (i) **The nature of the asset; and**

      (ii) **If the entity reports segment information in accordance with IPSAS 18, the reported segment to which the asset belongs, based on the entity's reporting format.**

   (d) **For a cash-generating unit:**

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

      (ii) **The amount of the impairment loss recognized or reversed by class of assets, and, if the entity reports segment information in accordance with IPSAS 18, by reported segment based on the entity's reporting format; and**

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

   (e) **Whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use;**

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

   (g) **If the recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.**

121. **An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognized during the period for which no information is disclosed in accordance with paragraph 120:**

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

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

122. An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets during the period. However, paragraph 123 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

122A. **If, in accordance with paragraph 90E, any portion of the goodwill acquired in an acquisition during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.**

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-Generating Units Containing Intangible Assets with Indefinite Useful Lives

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

   (a) **The carrying amount of goodwill allocated to the unit (group of units);**

   (b) **The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);**

(c) **The basis on which the unit's (group of units') recoverable amount has been determined (i.e., value in use or fair value less costs to sell);**

(d) **If the unit's (group of units') recoverable amount is based on value in use:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

(a) **The aggregate carrying amount of goodwill allocated to those units (groups of units);**

(b) **The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units);**

(c) **A description of the key assumption(s);**

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

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

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

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

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

125. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (groups of units) may, in accordance with paragraph 37 or 90O, be carried forward and used in the impairment test for that unit (groups of units) in the current period, provided specified criteria are met. When this is the case, the information for that unit (groups of units) that is incorporated into the disclosures required by paragraphs 123 and 124 relate to the carried forward calculation of recoverable amount.

Effective Date

126. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2009. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2009, it shall disclose that fact.**

126A. **Paragraphs 25 and 100 were amended by *Improvements to IPSASs* issued in January 2010. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged if an entity also applies the amendments to paragraphs 12, 13, 29, 40, 57, 59, 62, 62A, 62B, 63, 66, and 101A of IPSAS 16 at the same time. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact.**

126B. **Paragraph 123 was amended by *Improvements to IPSASs* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact.**

126C. **IPSAS 31 amended paragraph 2(h). An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 31 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.**

126D. **Paragraph 127 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

126E. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements* issued in January 2015, amended paragraph 12. An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.**

126F. **Paragraphs 2 and 8 were amended by *Improvements to IPSASs 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

126G. **Paragraphs 3 and 4 were deleted and paragraphs 5 and 18 were amended by *The Applicability of IPSASs,* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

126H. ***Impairment of Revalued Assets* (Amendments to IPSASs 21 and 26) amended paragraphs 2, 73, 108, 115 and 124, deleted paragraphs 6 and 11, and added paragraphs 73A and 108A. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies those amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

126I. **Paragraph 2 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

126J. **Paragraphs 2, 23, 71, 76, 88, 91, 92, 98–100, 102, 103, 106–108, 110, 111, 120, 122 and 123–125 were amended, paragraphs 18A, 20A, 90A–90O, 97A–97H, 111A, 111B and 122A added and paragraphs 7 and 96 deleted by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

126K. **Paragraphs 2, 9 and 12 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

126L. **Paragraphs 73A and 108A were amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

127. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* 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 of IPSASs.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 26.

Using Present Value Techniques to Measure Value in Use

This guidance uses the term "asset," but equally applies to a group of assets forming a cash-generating unit.

The Components of a Present Value Measurement

AG1. The following elements together capture the economic differences between cash-generating assets:

(a) An estimate of the future cash flow, or, in more complex cases, series of future cash flows that the entity expects to derive from the asset;

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

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

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

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

AG2. This appendix contrasts two approaches to computing present value, either of which may be used to estimate the value in use of an asset, depending on the circumstances. Under the traditional approach, adjustments for factors (b)–(e) described in paragraph AG1 are embedded in the discount rate. Under the expected cash flow approach, factors (b), (d) and (e) cause adjustments in arriving at risk-adjusted expected cash flows. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result should be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes.

General Principles

AG3. The techniques used to estimate future cash flows and interest rates will vary from one situation to another depending on the circumstances surrounding the asset in question. However, the following general principles govern any application of present value techniques in measuring assets:

(a) Interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions will be double-counted or ignored. For example, a discount rate of 12 percent might be applied to contractual cash flows of a loan receivable. That rate reflects expectations about future defaults from loans with particular characteristics. That same 12 percent rate should not be used to discount expected cash flows, because those cash flows already reflect assumptions about future defaults.

(b) Estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question. For example, deliberately understating estimated net cash flows to enhance the apparent future profitability of an asset introduces a bias into the measurement.

(c) Estimated cash flows or discount rates should reflect the range of possible outcomes rather than a single most likely minimum or maximum possible amount.

Traditional and Expected Cash Flow Approaches to Present Value

Traditional Approach

AG4. Accounting applications of present value have traditionally used a single set of estimated cash flows and a single discount rate, often described as the rate commensurate with the risk. In effect, the traditional approach assumes that a single discount rate convention can incorporate all the expectations about the future cash flows and the appropriate risk premium. Therefore, the traditional approach places most of the emphasis on selection of the discount rate.

AG5. In some circumstances, such as those in which comparable assets can be observed in the marketplace, a traditional approach is relatively easy to apply. For assets with contractual cash flows, it is consistent with the manner in which marketplace participants describe assets, as in a 12 percent bond.

AG6. However, the traditional approach may not appropriately address some complex measurement problems, such as the measurement of non-financial assets for which no market for the item or a comparable item exists. A proper search for the rate commensurate with the risk requires analysis of at least two items – an asset that exists in the marketplace and has an observed interest rate and the asset being measured. The appropriate discount rate for the cash flows being measured must be inferred from the observable rate of interest in that other asset. To draw that inference, the characteristics of the other asset's cash flows must be similar to those of the asset being measured. Therefore, the measurer must do the following:

(a) Identify the set of cash flows that will be discounted;

(b) Identify another asset in the marketplace that appears to have similar cash flow characteristics;

(c) Compare the cash flow sets from the two items to ensure that they are similar (for example, are both sets contractual cash flows, or is one contractual and the other an estimated cash flow?);

(d) Evaluate whether there is an element in one item that is not present in the other (for example, is one less liquid than the other?); and

(e) Evaluate whether both sets of cash flows are likely to behave (i.e., vary) in a similar fashion in changing economic conditions.

Expected Cash Flow Approach

AG7. The expected cash flow approach is, in some situations, a more effective measurement tool than the traditional approach. In developing a measurement, the expected cash flow approach uses all expectations about possible cash flows instead of the single most likely cash flow. For example, a cash flow might be CU100,[2] CU200, or CU300, with probabilities of 10 percent, 60 percent and 30 percent, respectively. The expected cash flow is CU220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.

AG8. The expected cash flow approach also allows use of present value techniques when the timing of cash flows is uncertain. For example, a cash flow of CU1,000 may be received in one year, two years, or three years, with probabilities of 10 percent, 60 percent, and 30 percent, respectively. The example below shows the computation of expected present value in that situation.

Present value of CU1,000 in 1 year at 5%	CU952.38	
Probability	10 %	CU95.24
Present value of CU1,000 in 2 years at 5.25%	CU902.73	
Probability	60 %	CU541.64
Present value of CU1,000 in 3 years at 5.50%	CU851.61	
Probability	30.%	CU255.48
Expected present value		CU892.36

AG9. The expected present value of CU892.36 differs from the traditional notion of a best estimate of CU902.73 (the 60 percent probability). A traditional present value computation applied to this example requires a decision about which of the possible timings of cash flows to use and, accordingly, which would not reflect the probabilities of other timings. This is because the discount rate in a traditional present value computation cannot reflect uncertainties in timing.

AG10. The use of probabilities is an essential element of the expected cash flow approach. Some question whether assigning probabilities to highly subjective estimates suggests greater precision than, in fact, exists. However, the proper application of the traditional approach (as described in paragraph AG6) requires the same estimates and subjectivity without providing the computational transparency of the expected cash flow approach.

AG11. Many estimates developed in current practice already incorporate the elements of expected cash flows informally. In addition, accountants often face the need to measure an asset using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:

(a) The estimated amount falls somewhere between CU50 and CU250, but no amount in the range is more likely than any other amount. Based on that limited information, the estimated expected cash flow is CU150 [(50+250)/2];

(b) The estimated amount falls somewhere between CU50 and CU250, and the most likely amount is CU100. However, the probabilities attached to each amount are unknown. Based on that limited information, the estimated expected cash flow is CU133.33 [(50+100+250)/3]; or

[2] In this and other examples monetary amounts are denominated in currency units (CU).

(c) The estimated amount will be CU50 (10 percent probability), CU250 (30 percent probability), or CU100 (60 percent probability). Based on that limited information, the estimated expected cash flow is CU140 [(50 × 0.10)+(250 × 0.30)+(100 × 0.60)].

In each case, the estimated expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely, or maximum amount taken alone.

AG12. The application of an expected cash flow approach is subject to a cost-benefit constraint. In some cases, an entity may have access to extensive data and may be able to develop many cash flow scenarios. In other cases, an entity may not be able to develop more than general statements about the variability of cash flows without incurring substantial cost. The entity needs to balance the cost of obtaining additional information against the additional reliability that information will bring to the measurement.

AG13. Some maintain that expected cash flow techniques are inappropriate for measuring a single item or an item with a limited number of possible outcomes. They offer an example of an asset with two possible outcomes: a 90 percent probability that the cash flow will be CU10 and a 10 percent probability that the cash flow will be CU1,000. They observe that the expected cash flow in that example is CU109, and criticize that result as not representing either of the amounts that may ultimately be paid.

AG14. Assertions like the one just outlined reflect underlying disagreement with the measurement objective. If the objective is accumulation of costs to be incurred, expected cash flows may not produce a representationally faithful estimate of the expected cost. However, this Standard is concerned with measuring the recoverable amount of an asset. The recoverable amount of the asset in this example is not likely to be CU10, even though that is the most likely cash flow. This is because a measurement of CU10 does not incorporate the uncertainty of the cash flow in the measurement of the asset. Instead, the uncertain cash flow is presented as if it were a certain cash flow. No rational entity would sell an asset with these characteristics for CU10.

Discount Rate

AG15. Whichever approach an entity adopts for measuring the value in use of an asset, interest rates used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

AG16. 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 periods until the end of the asset's useful life; and

(b) Factors (b), (d) and (e) described in paragraph AG1, to the extent those factors have not caused adjustments in arriving at estimated cash flows.

AG17. As a starting point in making such an estimate, the entity might 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.

AG18. However, these rates must be adjusted:

(a) To reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and

(b) To exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted.

Consideration should be given to risks such as country risk, currency risk, and price risk.

AG19. 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.

AG20. Paragraph 68 requires the discount rate used to be a pre-tax rate. Therefore, when the basis used to estimate the discount rate is post-tax, that basis is adjusted to reflect a pre-tax rate.

AG21. 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.

Appendix B

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 26.

Development of IPSAS 26 based on the IASB's revised version of IAS 36 issued in 2004

Introduction

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities.

BC2. The IPSASB issued IPSAS 21, *Impairment of Non-Cash-Generating Assets*, in December 2004. IPSAS 21 prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and establishes how the impairment is recognized and measured. The majority of assets in the public sector are non-cash-generating, and the recognition and measurement requirements developed resulted in a number of differences in IPSAS 21 from International Accounting Standard, IAS 36, *Impairment of Assets*.

Need for this Standard

BC3. IPSAS 21 referred readers to IAS 36 (a) in order to establish whether cash-generating assets have been impaired, and (b) for accounting for the recognition and measurement of any impairment. There are benefits in incorporating requirements and guidance on the impairment of cash-generating assets in an IPSAS, so that public sector entities do not have to refer to IAS 36 when an entity has cash-generating assets. In addition, there are a number of public sector issues related to impairment. These include:

(a) Whether cash-generating property, plant, and equipment carried in accordance with the revaluation model in IPSAS 17, *Property, Plant, and Equipment* should be within the scope;

(b) Distinguishing cash-generating and non-cash-generating assets;

(c) The redesignation of cash-generating assets to non-cash-generating assets and vice-versa; and

(d) The treatment for impairment purposes of non-cash-generating assets in cash-generating units.

Exclusion of Property, Plant, and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope

BC4. At the time this Standard was approved in February 2008, the scope of IPSAS 21 excluded non cash-generating property, plant, and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 stated that the IPSASB was of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17 would be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date, and (b) that any impairment will be taken into account in that valuation. The IPSASB therefore considered whether a similar scope exclusion should be included in this Standard.

BC5. The IPSASB acknowledged that property, plant, and equipment held on the revaluation model are within the scope of IAS 36, and considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB noted that in IAS 36, in cases where the fair value of an item of property, plant and equipment is its market value, the maximum amount of an impairment loss is the disposal costs. In the Basis for Conclusions for IPSAS 21, it is stated that "the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset." The IPSASB considered that disposal costs are also unlikely to be material for cash-generating assets.

BC6. For specialized cash-generating assets where fair value has not been derived from market value, IAS 36 requires recoverability to be estimated through the value in use. Because value in use is based on cash flow projection, it might be materially greater or lower than carrying amount. This analysis is also relevant in the public sector. However, it is questionable whether public sector entities hold specialized assets that meet the definition of a cash-generating asset in this Standard.

BC7. The IPSASB was of the view that it would be onerous to impose a requirement to test for impairment in addition to the existing requirement in IPSAS 17, i.e., that 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 at the reporting date. Therefore, on balance, the IPSASB concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36, and that property, plant and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant, and equipment, intangible assets that are regularly revalued to fair value were also excluded from the scope.

***Impairment of Revalued Assets* (Amendments to IPSAS 21 and IPSAS 26)**

BC7A. As a consequence of requests from jurisdictions that apply IPSASs, in 2015 the IPSASB revisited the original decision to exclude revalued property, plant and equipment and intangible assets from the scope of IPSAS 26.

BC7B. The IPSASB considered that the rationale in paragraphs BC5 and BC6 for the different requirements in IPSAS 26 and IAS 36 is sound. The IPSASB acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31.

BC7C. The IPSASB also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they are accounted for in a similar manner. Paragraph 51 of IPSAS 17 requires the entire class of assets to be revalued if an item of property, plant and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the consequences are onerous. The IPSASB considered that it should resolve this ambiguity.

BC7D. The IPSASB also considered it important that users are provided with the quantitative and qualitative information on impairments specified in paragraphs 120 and 121 of IPSAS 26,

BC7E. Consistent with IPSAS 21, the IPSASB's objective in clarifying the ambiguity, was to ensure that impairment losses and reversals of impairment losses of a revalued asset did not require an entity to revalue the entire class of assets to which that item belongs in order to recognize an impairment loss in respect of that item.

BC7F. Although including property, plant and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 means that an entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 will not be overly onerous for the preparers of financial statements.

BC7G. As a result of these considerations the IPSASB approved ED 57, *Impairment of Revalued Assets*, in September 2015 and published the ED the following month.

Responses to ED 57

BC7H. The majority of respondents to ED 57 supported the proposals and the IPSASB's rationale. The IPSASB considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17.

BC7I. The IPSASB acknowledged this view but considered it inappropriate for two reasons. Firstly such an approach did not sufficiently address the different methods of determining value in use for non-cash generating assets when evaluating an asset's recoverable service amount. Such methods are the depreciated replacement cost approach, the restoration cost approach and the service-units approach. Secondly, the approach does not provide the information needed for accountability and decision-making purposes by users that is provided by the disclosures in IPSAS 21 and IPSAS 26. The IPSASB therefore decided to effect the proposals in ED 57 in a final pronouncement.

BC7J. Following comments by respondents to the ED the IPSASB reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB concluded that they are conceptually the same. However, there is a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference is reflected in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs."

Exclusion of Goodwill from Scope

BC8. IAS 36 contains extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment. In developing IPSAS 26, the IPSASB considered whether goodwill should be within the scope of this Standard. The IPSASB had not yet issued an IPSAS dealing with entity combinations and considered it likely that a number of public sector-specific issues would arise when combinations of public sector entities take place: in particular, whether an acquirer can always be identified in combinations of public sector entities. The IPSASB concluded that goodwill should not be within the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, users were referred to the requirements of the relevant international or national accounting standards dealing with the impairment of goodwill, the allocation of goodwill to cash-generating units, and the testing for impairment of cash-generating units with goodwill.

BC8A. IPSAS 40, *Public Sector Combinations*, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

BC8B. As a consequence of the IPSASB's decision that goodwill should be considered a cash-generating asset for the purposes of impairment, the IPSASB agreed to incorporate into IPSAS 26 the extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment contained in IAS 36.

Distinguishing Cash-Generating and Non-Cash-Generating Assets

BC9. The IPSASB noted that some assets have both cash-generating and non-cash-generating characteristics. The IPSASB considered whether it should adopt a components-based approach that would identify the cash-generating and non-cash-generating components of assets and subject them to different treatments. The IPSASB rejected such an approach because of cost-benefit considerations. The IPSASB concluded that assets in the public sector are generally non-cash-generating, and that an analysis of their service potential is the preferred basis to determine impairment. This Standard therefore includes a rebuttable presumption at paragraph 18 that assets that are both cash-generating and non-cash-generating should be treated as non-cash-generating assets.

Indications of Impairment: Market Capitalization

BC10. When this Standard was issued, the IPSASB considered whether the indications for impairment of cash-generating assets held by public sector entities – both external sources and internal sources of information – were similar to those in IAS 36. The IPSASB concluded that the indications in IAS 36 were relevant, except for the indication that the carrying amount of the net assets of the entity is more than its market capitalization. When this Standard was issued, the IPSASB was of the view that very few public sector entities that were not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016) would issue equity instruments traded in deep markets, and that such an indication will therefore only be relevant on the consolidation of GBEs.

Fair Value less Costs to Sell and Forced Sales

BC11. In commentary on the definition of "fair value less costs to sell," IAS 36 states that "fair value less costs to sell does not reflect a forced sale," but includes a qualification: "unless management is compelled to sell immediately." IPSAS 26 does not include this qualification in paragraph 40 because there are very few circumstances in which public sector entities that are not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016) will be forced to sell immediately in order to remain a going concern.

Redesignation of Assets

BC12. Cash-generating assets can become non-cash-generating assets and vice-versa. The IPSASB considered under what circumstances a redesignation of an asset from cash-generating to non-cash-generating and vice-versa should be permitted. The IPSASB concluded that a redesignation can occur only when there is clear evidence that it is appropriate. The IPSASB also concluded that a redesignation by itself does not trigger an impairment test or the reversal of an impairment loss.

Instead, at the subsequent reporting date, an entity should evaluate the appropriate indicators following redesignation to determine if a test is needed. These requirements are stated in paragraph 112.

Cash-Generating Units

BC13. As in IAS 36, where it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount for the asset's cash-generating unit (CGU) will be determined. The CGU is the smallest identifiable group of assets (a) that generates cash inflows from continuing use, and (b) that is largely independent of the cash inflows from other assets or groups of assets. The IPSASB concluded that the notion of a CGU is appropriate for cash-generating assets in a public sector context.

Corporate Assets

BC14. IAS 36 includes requirements related to corporate assets. Corporate assets are defined in IAS 36 as "assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units"—that is, a corporate asset contributes only to CGUs and not to non-cash-generating activities. The IPSASB considered whether this Standard should include requirements for corporate assets as defined in IAS 36.

BC15. The primary purpose of public sector entities that are not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016) is not the generation of commercial returns. Therefore, the IPSASB considers that there will be very few occasions in which an asset shared between different activities (such as an administrative building) contributes service potential to CGUs without also contributing service potential to non-cash-generating activities. It was therefore decided that it is not necessary to define, and provide requirements for, corporate assets in this Standard. Paragraph 96 refers entities to the relevant international and national accounting standard dealing with assets that do not generate cash flows independently of other assets and form part of more than one cash-generating unit, but do not contribute service potential to non-cash-generating activities.

Treatment of Non-Cash-Generating Assets in Cash-Generating Units

BC16. There are likely to be a number of cases in which public sector entities hold non-cash-generating assets that contribute service potential to CGUs in addition to non-cash-generating activities. The IPSASB considered the approach to the treatment of such non-cash-generating assets in CGUs. In particular, the IPSASB considered whether it is appropriate to include a proportion of the carrying amount of a non-cash-generating asset, following any impairment test under IPSAS 21, in the carrying amount of the CGU when comparing the carrying amount of that CGU with its recoverable amount.

BC17. The IPSASB concluded that a proportion of the carrying amount of such a non-cash-generating asset should be included in the carrying amount of the CGU. That proportion should be determined on a basis pro rata to the service potential that such an asset contributes to the CGU. If the non-cash-generating asset is ignored, the carrying amount of the CGU may be understated and impairment losses not recognized. However, because any impairment of the non-cash-generating asset will have been determined in accordance with IPSAS 21, the non-cash-generating asset will have been written down to its recoverable service amount. Therefore, no further impairment loss relating to the CGU should be applied to the non-cash-generating asset. Any impairment losses are allocated on a pro rata basis, based on carrying values, to the cash-generating assets in the CGU, subject to the limits in paragraph 92. This approach is reflected in paragraph 95.

Revision of IPSAS 26 as a result of the IASB's *Improvements to IFRSs* issued in 2008

BC18. The IPSASB reviewed the revisions to IAS 36 included in the *Improvements to IFRSs* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Revision of IPSAS 26 as a result of Part II of *Improvements to IPSASs 2015*: issues raised by stakeholders

BC19. Stakeholders indicated that IPSASs referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, may only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector may not be completed within one year because of the levels of approval required. This raises questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB notes that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB has concerns that not depreciating assets for an extended period of time may be inappropriate.

(b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements may not provide relevant information for these transfers. However, the IPSASB recognizes that the measurement and disclosure requirements in IFRS 5 may be appropriate where sales are intended to take place at fair value.

(c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements may not provide relevant information for public sector discontinued operations. However, the IPSASB recognizes that the disclosure requirements in IFRS 5 may be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference may result in entities following the requirements of IFRS 5 in circumstances where this may not be appropriate. The IPSASB noted that IPSAS 3 provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSASs. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

Revision of IPSAS 26 as a result of the IPSASB's *The Applicability of IPSASs,* issued in April 2016

BC20. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

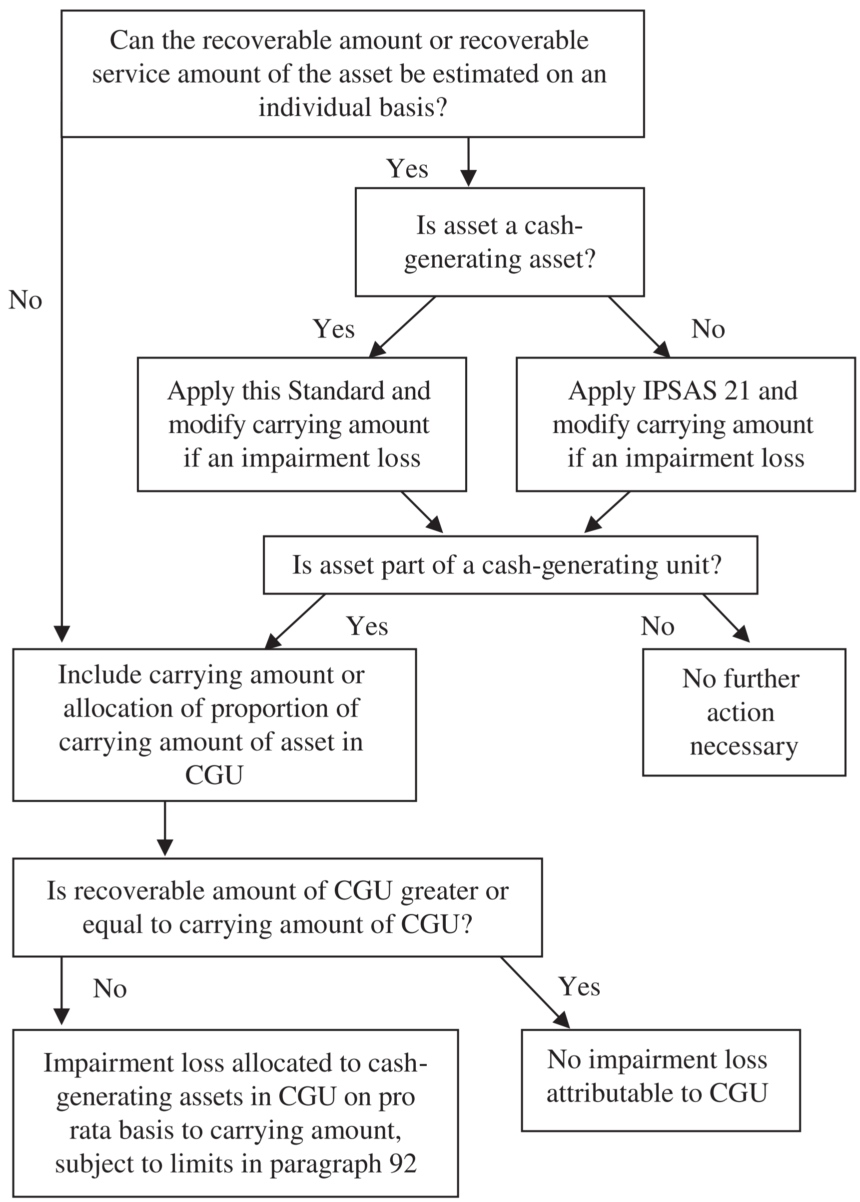
Revision of IPSAS 26 as a result of *Improvements to IPSAS, 2019*

BC21. The reference to "class of assets" in paragraphs 73A and 108A created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31, *Intangible Assets* and class of assets in the scope of IPSAS 17.

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 26.

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



Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26.

Most assets held by public sector entities are non-cash-generating assets, and accounting for their impairment should be undertaken in accordance with IPSAS 21.

In those circumstances when an asset held by a public sector entity is held with the objective of generating a commercial return, the provisions of this Standard should be followed. Most cash-generating assets will arise in business activities run by commercial public sector entities. An example is a seed-producing unit run on a commercial basis that is part of an agricultural research entity.

For the purposes of all these examples, a public sector entity undertakes commercial activities.

Identification of Cash-Generating Units

The purpose of this example is:

(a) *To indicate how cash-generating units are identified in various situations; and*

(b) *To highlight certain factors that an entity may consider in identifying the cash-generating unit to which an asset belongs.*

A—Reduction in Demand Related to a Single-Product Unit

Background

IG1. A government has an electricity-generating utility. The utility has two turbine generators in a single electric plant. In the current period, a major manufacturing plant in the area closed and demand for power was significantly reduced. In response, the government shut down one of the generators.

Analysis

IG2. The individual turbine generators do not generate cash flows in and of themselves. Therefore the cash-generating unit to be used in determining an impairment is the electric plant as a whole.

B—Government Air Freight Unit that Leases an Aircraft

Background

IG3. M is the air freight unit of a government entity. It operates three aircraft, a landing strip, and a number of hangers and other buildings, including maintenance and fueling facilities. Because of declining demand for its services, M leases one aircraft for a five-year period to a private sector entity. Under the terms of the lease, M is required to allow the lessee to use the landing strip and is responsible for all maintenance to the aircraft.

Analysis

IG4. Because of the terms of the lease, the leased aircraft cannot be considered to generate cash inflows that are largely independent of the cash inflows from M as a whole. Therefore, it is likely that the cash-generating unit to which the aircraft belongs is M as a whole.

C—Crushing Plant in Waste Disposal Entity

Background

IG5. A municipality runs a waste disposal entity that owns a crushing plant to support its waste disposal activities. The crushing plant could be sold only for scrap value, and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the waste disposal entity.

Analysis

IG6. It is not possible to estimate the recoverable amount of the crushing plant, because its value in use cannot be determined and is probably different from the scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the crushing plant belongs, i.e., the waste disposal entity as a whole.

D—Routes Provided by Bus Company

Background

IG7. A state bus company provides services under contract with a municipality that specifies minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Analysis

IG8. Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit is the bus company as a whole.

Calculation of Value in Use and Recognition of an Impairment Loss

Background and Calculation of Value in Use

IG9. At the beginning of 20X0, Government R, through its Department of Power, puts into service a power plant that it constructed for CU250 million.

IG10. At the beginning of 20X4, power plants constructed by competitors are put into service, resulting in a reduction in the revenues produced by the power plant of Government R. Reductions in revenue result because the volume of electricity generated has decreased from expectations, and also because the prices for electricity and stand-by capacity have decreased from expectations.

IG11. The reduction in revenue is evidence that the economic performance of the asset is worse than expected. Consequently, Government R is required to determine the asset's recoverable amount.

IG12. Government R uses straight-line depreciation over a 20-year life for the power plant and anticipates no residual value.

IG13. It is not possible to determine the fair value less costs to sell of the power plant. Therefore, recoverability can only be determined through the calculation of value in use. To determine the value in use for the power plant (see Schedule 1), Government R:

(a) Prepares cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (years 20X5-20X9) approved by management;

(b) Estimates subsequent cash flows (years 20Y0–20Y9) based on declining growth rates ranging from -6 percent per annum to -3 percent per annum; and

(c) Selects a 6 percent discount rate, which represents a rate that reflects current market assessments of the time value of money and the risks specific to Government R's power plant.

Recognition and Measurement of Impairment Loss

IG14. The recoverable amount of Government R's power plant is CU121.1 million.

IG15. Government R compares the recoverable amount of the power plant to its carrying amount (see Schedule 2).

IG16. Because the carrying amount exceeds the recoverable amount by CU78.9 million, an impairment loss of CU78.9 million is recognized immediately in surplus or deficit.

Schedule 1—Calculation of the Value in Use of Government R's Power Plant at the End of 20X4

Year	Long-term growth rates	Future cash flows	Present value factor at 6% discount rate[§]	Discounted future cash flows (CUm)
20X5 (n=1)		16.8 [*]	0.94340	15.8
20X6		14.4 [*]	0.89000	12.8
20X7		14.2 [*]	0.83962	11.9
20X8		14.1 [*]	0.79209	11.2
20X9		13.9 [*]	0.74726	10.4
20Y0	(6%)	13.1 [†]	0.70496	9.2

20Y1	(6%)	12.3 [†]	0.66506	8.2
20Y2	(6%)	11.6 [†]	0.62741	7.3
20Y3	(5%)	11.0 [†]	0.59190	6.5
20Y4	(5%)	10.5 [†]	0.55839	5.9
20Y5	(5%)	10.0 [†]	0.52679	5.3
20Y6	(4%)	9.6 [†]	0.49697	4.8
20Y7	(4%)	9.2 [†]	0.46884	4.3
20Y8	(3%)	8.9 [†]	0.44230	3.9
20Y9	(3%)	8.6 [†]	0.41727	3.6
Value in use				**121.1**

[*] Based on management's best estimate of net cash flow projections.

[†] Based on an extrapolation from preceding year cash flow using declining growth rates.

[§] The present value factor is calculated as $k = 1/1(+a)^n$, where a = discount rate and n = period discount.

Schedule 2—Calculation of the Impairment Loss for Government R's Power Plant at the Beginning of 20X5

Beginning of 20X5	**Total CU(m)**
Historical cost	250.0
Accumulated depreciation (20X4)	(50.0)
Carrying amount	200.0
Carrying amount after impairment loss	121.1
Impairment loss	(78.9)

Reversal of an Impairment Loss

This Example relies on the data for Government R as presented in IG9 to IG16, with supplementary information provided in this Example. In this Example, tax effects are ignored.

Background

IG17. By 20X6 some competitors have closed down power plants and this has meant that the negative impact on the revenues of Government R has been less than projected at the end of 2004. This favorable change requires the government to re-estimate the recoverable amount of the power plant.

IG18. Calculations similar to those in Example 2 show that the recoverable amount of the power plant is now CU157.7 million.

Reversal of Impairment Loss

IG19. Government R compares the recoverable amount and the net carrying amount of the power plant and reverses part of the impairment loss previously recognized at Example 2.

Non-Cash-Generating Asset that Contributes to a Cash-Generating Unit

Background

IG20. A public hospital owns and operates a Magnetic Resonance Imaging (MRI) scanner that is primarily used by wards for non-fee paying patients. However, 20% of its usage is for treatment of fee-paying patients. The fee-paying patients are accommodated and treated in a separate building that includes wards, an operating theatre, and numerous pieces of capital equipment used solely for fee-paying patients. At December 31, 20X6, the carrying value of the building and capital equipment is CU30,000. It is not possible to estimate the recoverable amount of the building and the items of capital equipment on an individual basis. Therefore, the building and capital equipment are considered as a cash-generating unit (CGU). At January 1, 20X6 the MRI scanner had a carrying value of CU3,000. A depreciation expense of CU600 is recognized for the MRI scanner at December 31, 20X6. Because there have been significant technological advances in the field, the MRI scanner is tested for impairment at December 31, 20X6 and an impairment loss of CU400 is determined, so that the carrying value of the MRI scanner at December 31, 20X6 is CU2,000.

Determination of Recoverable Amount of Cash-Generating Unit

IG21. During the year there had been a significant reduction in the number of fee-paying patients at the hospital. The CGU is therefore tested for impairment. The recoverable amount of the CGU, based on its value in use, is assessed as CU27,400. 20% of the revised carrying value of the MRI scanner (CU400) is allocated to the carrying amount of the CGU before determining the impairment loss (CU3,000). The impairment loss is allocated to the building and capital equipment pro rata based on their carrying values. No further impairment loss is allocated to the MRI scanner, as an impairment loss has already been determined under the requirements of IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Inclusion of Recognized Liabilities in Calculation of Recoverable Amount of a Cash-Generating Unit

Background

IG22. A municipality operates a waste disposal site and is required to restore the site on completion of its operations. The cost of restoration includes the replacement of the topsoil, which must be removed before waste disposal operations commence. A provision for the costs to replace the top soil was recognized as soon as the top soil was removed. The amount provided was recognized as part of the cost of the site and is being depreciated over the site's useful life. The carrying amount of the provision for restoration costs is CU500, which is equal to the present value of the restoration costs.

Impairment Testing

IG23. The municipality is testing the site for impairment. The cash-generating unit is the site as a whole. The government has received various offers to buy the site at a price of around CU800. This price reflects the fact that the buyer will assume the obligation to restore the topsoil. Disposal costs for the site are negligible. The value in use of the site is approximately CU1,200, excluding restoration costs. The carrying amount of the waste disposal site is CU1,000.

IG24. The cash-generating unit's fair value less costs to sell is CU800. This amount includes restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs, and is estimated to be CU700 (CU1,200 minus CU500). The carrying amount of the cash-generating unit is CU500, which is the carrying amount of the site (CU1,000) minus the carrying amount of the provision for restoration costs (CU500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

Including Goodwill in the Carrying Amount of an Operation on Disposal

Background

IG24A. A municipality sells for CU100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is CU300.

Accounting Treatment

IG24B. Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 percent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

Reallocation of Goodwill when a Cash-Generating Unit is Restructured

Background

IG24C. Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Accounting Treatment

IG24D. Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Accounting Treatment of an Individual Asset in a Cash-Generating Unit dependent on whether Recoverable Amount can be Determined

Background

IG25. A holding tank at a water purification plant has suffered physical damage but is still working, although not as well as before it was damaged. The holding tank's fair value less costs to sell is less than its carrying amount. The holding tank does not generate independent cash inflows. The smallest identifiable group of assets that includes the holding tank and generates cash inflows that are largely independent of the cash inflows from other assets is the plant to which the holding tank belongs. The recoverable amount of the plant shows that the plant taken as a whole is not impaired.

Recoverable Amount of Holding Tank Cannot be Determined

IG26. Assumption 1: Budgets/forecasts approved by management reflect no commitment of management to replace the holding tank.

IG27. The recoverable amount of the holding tank alone cannot be estimated because the holding tank's value in use:

(a) May differ from its fair value less costs to sell; and

(b) Can be determined only for the cash-generating unit to which the holding tank belongs (the water purification plant).

The plant is not impaired. Therefore, no impairment loss is recognized for the holding tank. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the holding tank. Perhaps a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the holding tank or the pattern in which economic benefits are expected to be consumed by the entity.

Recoverable Amount of Holding Tank Can be Determined

IG28. Assumption 2: Budgets/forecasts approved by management reflect a commitment of management to replace the holding tank and sell it in the near future. Cash flows from continuing use of the holding tank until its disposal are estimated to be negligible.

IG29. The holding tank's value in use can be estimated to be close to its fair value less costs to sell. Therefore, the recoverable amount of the holding tank can be determined, and no consideration is given to the cash-generating unit to which the holding tank belongs (i.e., the production line). Because the holding tank's fair value less costs to sell is below its carrying amount, an impairment loss is recognized for the holding tank.

Comparison with IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- IPSAS 26 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the revaluation model in IPSAS 17, *Property, Plant, and Equipment*. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.
- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs to sell. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the redesignation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.
- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue" and "statement of financial performance." The equivalent terms in IAS 36 are "income" and "income statement."