IPSAS 21—IMPAIRMENT OF NON-CASH-GENERATING ASSETS
as adopted by the Maltese Government

Issued DD/MM/YY

This Standard was issued by the IPSAS Implementation Board pursuant to section X of the X Act 201X (v.2)

DRAFT

IPSAS 21—IMPAIRMENT OF NON-CASH-GENERATING ASSETS as adopted by the Maltese Government

CONTENTS

DRAFT

International Public Sector Accounting Standard 21, *Impairment of Non-Cash-Generating Assets as adopted by the Maltese Government*, is set out in paragraphs 1–83A. All the paragraphs have equal authority. IPSAS 21[1] should be read in the context of its objective. 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.

DRAFT

[1] References to IPSAS 21 or any other IPSAS shall be taken as meaning ‘as adopted by the Maltese Government’.

Objective

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

Scope

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

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

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

   (c) **Financial assets that are included in the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*;**

   (d) **Investment property that is measured using the fair value model (see IPSAS 16, *Investment Property)*; and**

   (e) **[Deleted]**

   (f) **[Deleted]**

   (g) **Other assets in respect of which accounting requirements for impairment are included in another IPSAS.**

3. **This Standard applies only to Central Government entities**.

4. [Not used]

5. **Central Government entities that hold cash-generating assets as defined in paragraph 14, shall apply IPSAS 26, Impairment of Cash-Generating Assets, to such assets. Central Government entities that hold non-cash-generating assets shall apply the requirements of this Standard to non-cash-generating assets.**

6. [Not used]

7. [Deleted]

8. [Not used]

DRAFT

9. [Not used]

10. [Not used]

11. [Not used]

12. [Not used]

13. Investments in:

    (a) Controlled entities, as defined in IPSAS34, *Separate Financial Statements* and IPSAS 35 *Consolidated Financial Statements*;

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

    (c) Joint ventures, as defined in IPSAS 36, *Investments in Associates and Joint Ventures* and IPSAS 37, *Joint Arrangements*;

    are financial assets that are excluded from the scope of IPSAS 29. Where such investments are classified as cash-generating assets, they are dealt with under IPSAS 26. Where these assets are non-cash-generating assets, they are dealt with under this Standard.

Definitions

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

    An active market is a market in which all the following conditions exist:

    (a) **The items traded within the market are homogeneous;**

    (b) **Willing buyers and sellers can normally be found at any time; and**

    (c) **Prices are available to the public.**

    Cash-generating assets are assets held with the primary objective of generating a commercial return.

    Central Government Entities means Government Ministries and Departments.

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

    Fair value less costs to sell is the price that would be received to sell an asset

or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less the costs of disposal.

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

Non-cash-generating assets are assets that are primarily held for service delivery purposes and may include assets generating cash with no commercial return.

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

Useful life is either:

(a) **The period over which an asset is expected to be available for use by an entity; or**

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

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

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

15. [Not used]

Cash-Generating Assets

16. 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 generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and 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 non-cash-generating asset(s).

17. There are a number of circumstances in which Central Government entities may hold some assets with the primary objective of generating a commercial

return, although the majority of assets are not held for that purpose. For example, a hospital may deploy a building for fee-paying patients. Cash-generating assets of a Central Government entity may operate independently of the non-cash-generating assets of the entity.

18. 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.

19. In other instances, an asset may be used for non-cash-generating purposes and also be used to generate cash flows. For example, a public hospital has ten wards, nine of which are used for non- fee-paying patients, and the other is used for fee-paying patients on a commercial basis. 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 26. If, as in this example, the cash-generating component is an insignificant component of the arrangement as a whole, the entity applies IPSAS 21 rather than IPSAS 26.

20. 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 26. Judgment is needed to determine which Standard to apply, with assistance from the pertinent government authority. 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 16–20. Paragraph 72A requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of most Central Government entities, the presumption is that assets are non-cash-generating and, therefore, IPSAS 21 will apply.

21. Central Government entities may hold assets to generate a commercial return. For the purposes of this Standard, an asset held by a Central Government entity is classified as a cash-generating asset if the asset (or unit of which the asset is a part) is operated with the objective of generating a commercial return through the provision of goods and/or services to external parties.

Depreciation

22. 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

23. This Standard defines an impairment as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortization). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it. For example, an entity may have printing equipment with a reduced service potential as a result of changes in technology; because of the specialised nature of the equipment it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. The asset is regarded as impaired, as it is no longer capable of providing the entity with the same level of service potential – it has little utility for the entity in contributing to the achievement of its objectives.

Identifying an Asset that may be Impaired

24. Paragraphs 26-34 specify when recoverable service amounts would be determined.

25. A non-cash-generating asset is impaired **when the carrying amount of the asset exceeds its recoverable service amount.** Paragraph 27 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.

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

26A. **Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**

26B. 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.

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

External sources of information

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

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

Internal sources of information

(c) **Evidence is available of physical damage of an asset;**

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

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

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

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

29. The list in paragraph 27 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset's recoverable service amount. For example, any of the following may be an indication of impairment:

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

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

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

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

32. Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph 27(f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:

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

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

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

33. The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 27.

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

Measuring Recoverable Service Amount

35. This Standard defines recoverable service amount as the higher of an asset's fair value, less costs to sell, and its value in use. Paragraphs 36–50 set out the basis for measuring recoverable service amount.

36. 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.

37. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. Paragraph 42 sets out possible alternative bases for estimating fair value less costs to sell when an active market for the asset does not exist. However, sometimes it will not be possible to determine fair value less costs to sell. In this case, the entity may use the asset's value in use as its recoverable service amount.

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

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

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

39A. Paragraph 26A requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable service amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

(a) If the intangible asset does not provide service potential from continuing use that is 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 service 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 service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.

Fair Value Less Costs to Sell

40. The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an orderly transaction between market participants at the measurement date, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

41. 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.

42. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an orderly transaction between market participants in an active market for a similar asset, after deducting the costs of disposal. Fair value less costs to sell does not reflect a forced sale.

43. Costs of disposal, other than those that have been recognised as liabilities, are

deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in IPSAS 39, *Employee 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.

Value in Use

44. This Standard defines the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential. Value in use in this Standard refers to value in use of a non-cash-generating asset, unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs 45-49, as appropriate.

Depreciated Replacement Cost Approach

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

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

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

Restoration Cost Approach

48. Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated

DRAFT

reproduction or replacement cost of the asset, whichever is lower. Paragraphs 45 and 47 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service Units Approach

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

Application of Approaches

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

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

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

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

Recognising and Measuring an Impairment Loss

51. Paragraphs 52-57 set out the requirements for recognising and measuring impairment losses for an asset. In this Standard, impairment loss refers to impairment loss of a non-cash-generating asset unless otherwise specified.

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

53. As noted in paragraph 26, this Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a potential impairment loss is present. Paragraphs 27-33 identify key indications that an impairment loss may have occurred.

54. **An impairment loss shall be recognised 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.

54A. An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets.

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

56. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero, with a corresponding amount recognised in surplus or deficit. A liability would be recognised only if another IPSAS so requires. An example is when a purpose-built military installation is no longer used and the entity is required by law to remove such installations if not usable. The entity may need to make a provision for dismantling costs if required by IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets.*

57. **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.**

Reversing an Impairment Loss

58. Paragraphs 59-70 set out the requirements for reversing an impairment loss recognised for an asset in prior periods.

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

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

External sources of information

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

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

Internal sources of information

(c) **Significant long-term changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs;**

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

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

61. Indications of a potential decrease in an impairment loss in paragraph 60 mainly mirror the indications of a potential impairment loss in paragraph 27.

62. The list in paragraph 60 is not exhaustive. An entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, either of the following may be an indication that the impairment loss may have reversed:

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

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

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

64. If there is an indication that an impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that (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 IPSAS applicable to the asset, even if no impairment loss is reversed for the asset.

DRAFT

65. **An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph 68, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.**

66. This Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a reversal of an impairment loss is present. Paragraph 60 identifies key indications that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased.

67. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. Paragraph 77 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

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

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

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

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

69. **A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with 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.**

69A. A reversal of an impairment loss on a revalued asset is recognised directly in the revaluation reserve and increases the revaluation surplus for that class of assets. However, to the extent that an impairment loss on the same class of revalued assets was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit.

70. **After a reversal of an impairment loss is recognised, 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.

Redesignation of Assets

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

72. There are circumstances in which Central Government entities may decide that it is appropriate to redesignate a non-cash-generating asset as a cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from a social housing unit, for which no charge is made. The social housing unit has been demolished, and the site will be developed for industrial and retail purposes. It is intended that, in future, the plant will be used to treat industrial effluent at commercial rates. In light of this decision, the Central Government entity decides to redesignate the effluent treatment plant as a cash-generating asset.

Disclosure

72A. **An entity shall disclose the criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets.**

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

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

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

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

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

73A. [Deleted]

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

75. The information required in paragraph 73 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.

76. **An entity that reports segment information in accordance with IPSAS 18, *Segment Reporting*, shall disclose the following for each segment reported by the entity:**

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

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

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

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

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

(c) **The nature of the asset;**

(d) **The segment to which the asset belongs, if the entity reports segment information in accordance with IPSAS 18;**

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

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

(g) **If the recoverable service amount is value in use, the approach used to determine value in use.**

78. **An entity shall disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 77:**

(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.**

79. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.

Transitional Provisions

80. [Not used]

80A. [Not used]

81. [Not used]

Effective Date

82. [Not used]

82A. [Not used]

82B. [Not used]

83. [Not used]

83A. Central Government entities shall apply this standard for annual financial statements covering periods beginning or after DD/MM/YY. Earlier application is not permitted.

DRAFT

Appendix 1
Comparison with IPSAS 21

IPSAS 21 Impairment of Non-Cash-Generating assets as adopted by the Maltese Government is drawn from IPSAS 21 Impairment of Non-Cash-Generating assets.

The following are the significant differences between IPSAS 21 as adopted by the Maltese Government and IPSAS 21:

Section/s	**IPSAS 21 (as adopted)**	**IPSAS 21**
2(e), (f), 7	Deleted	Exception in scope included non-cash generating property, plant, and equipment and intangible assets that are measured at revalued amounts.
3	Applicability of Standard to Central Government entities.	Applicability of Standard to all public sector entities other than Government Business Enterprises.
14, 40	Fair value less cost to sell definition is based on current terminology applied in IFRS13. Fair value less cost to sell is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date, less the costs of disposal.	Fair value less cost to sell defined as the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
20	Judgement is needed to determine which standard to apply with assistance from the pertinent government authority.	Judgement is needed to determine which standard to apply.
42	The standard requires that fair value less costs to sell in	The standard requires that fair value less costs to sell in the

DRAFT

	the absence of a binding sale agreement or active market should reflect the amount that an entity could obtain from the disposal of the asset in an orderly transaction between market participants in an active market for a similar asset, after deducting the costs of disposal.	absence of a binding sale agreement or active market should reflect the amount that an entity could obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount an entity could consider the outcome of recent transactions for similar assets within the same industry.
54, 54A	An impairment loss shall be recognised 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**.** An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets.	An impairment loss shall be recognised immediately in surplus or deficit.

69, 69A	A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with 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. A reversal of an impairment loss on a revalued asset is recognised directly in the revaluation reserve and increases the revaluation surplus for that class of assets. However, to the extent that an impairment loss on the same class of revalued assets was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit.	A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit.
73	An entity shall disclose the following for each class of assets: (a) The amount of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included; (b) The amount of reversals of impairment losses	An entity shall disclose the following for each class of assets: (a) The amount of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included; and (b) The amount of reversals of impairment losses

DRAFT

	recognised in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed. (c) The amount of impairment losses on revalued assets recognised directly in revaluation surplus during the period; and (d) The amount of reversals of impairment losses on revalued assets recognised directly in revaluation surplus during the period.	recognised in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed.

DRAFT

Appendix 2
Comparison with Original Draft

The following are the significant amendments from the original draft issued:

	Section/s	***Original* draft IPSAS 21 (as adopted)**	***Revised* draft IPSAS 21 (as adopted)**
A	2, 7	Exception in scope included non-cash generating property, plant, and equipment and intangible assets that are measured at revalued amounts.	Deleted. [*These were deleted following amendments made by IPSASB (July 2016) in IPSAS 21 and IPSAS 26 – it was decided to include within the scope of IPSAS 21 and IPSAS 26 assets measured at revalued amounts under the revaluation models in IPSAS 17, Property, Plant and Equipment, and IPSAS 31, Intangible Assets.* *Note that where an impairment loss is recognised for an asset, or group of assets, that is revalued, an entity is not necessarily required to revalue the entire class of assets to which that impaired asset, or group of assets, belongs]*.
B	20	Judgement is needed to determine which standard to apply.	Judgement is needed to determine which standard to apply, with the assistance from the pertinent government authority. *[This has been introduced to give the opportunity to ministries and departments to consult with a government body (such as the Treasury or any other body authorised at that time in specific circumstances) before taking any accounting decisions]*.

DRAFT

C	54, 54A	An impairment loss shall be recognised immediately in surplus or deficit.	An impairment loss shall be recognised 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**.** An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets. [*These changes were made following amendments made by the IPSASB (July 2016) in IPSAS 21 and IPSAS 26 – it was decided to include within the scope of IPSAS 21 and IPSAS 26 assets measured at revalued amounts under the revaluation models in IPSAS 17, Property, Plant and Equipment, and IPSAS 31, Intangible Assets*].
D	69, 69A	A reversal of an impairment loss for an asset shall be	A reversal of an impairment loss for an asset shall be recognised immediately in

DRAFT

		recognised immediately in surplus or deficit.	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 reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard**.** A reversal of an impairment loss on a revalued asset is recognised directly in the revaluation reserve and increases the revaluation surplus for that class of assets. However, to the extent that an impairment loss on the same class of revalued assets was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit. [*These changes were made following amendments made by the IPSASB (July 2016) in IPSAS 21 and IPSAS 26 – it was decided to include within the scope of IPSAS 21 and IPSAS 26 assets measured at revalued amounts under the revaluation models in IPSAS 17, Property, Plant and Equipment, and IPSAS 31, Intangible Assets]*.
E	73	An entity shall disclose the following for each class of assets: (a) The amount of impairment losses	An entity shall disclose the following for each class of assets: (a) The amount of impairment losses recognised

		recognised in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included; and (b) The amount of reversals of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed.	in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included; (b) The amount of reversals of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed; (c) The amount of impairment losses on revalued assets recognised directly in revaluation surplus during the period; and (d) The amount of reversals of impairment losses on revalued assets recognised directly in revaluation surplus during the period. [*These changes were made following amendments made by the IPSASB (July 2016) in IPSAS 21 and IPSAS 26 – it was decided to include within the scope of IPSAS 21 and IPSAS 26 assets measured at revalued amounts under the revaluation models in IPSAS 17, Property, Plant and Equipment, and IPSAS 31, Intangible Assets]*.

DRAFT