

**IPSAS 26—IMPAIRMENT OF 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)**

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IMPAIRMENT OF CASH-GENERATING ASSETS

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International Public Sector Accounting Standard 26, *Impairment of Cash-Generating Assets as adopted by the Maltese Government*, is set out in paragraphs 1–127A. All the paragraphs have equal authority. IPSAS 26¹ 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.

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¹References to IPSAS 26 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 an entity applies to determine whether a cash-generating asset is impaired, and to ensure that impairment losses are recognised. This Standard also specifies when an entity should reverse an impairment loss, and prescribes disclosures.

Scope

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 29, *Financial Instruments: Recognition and Measurement*;**
 - (d) **Investment property that is measured at fair value (see IPSAS 16, *Investment Property*);**
 - (e) **[Deleted]**
 - (f) **Deferred tax assets;**
 - (g) **Assets arising from employee benefits (see IPSAS 39, *Employee Benefits*);**
 - (h) **[Deleted]**
 - (i) **Goodwill;**
 - (j) **Biological assets related to agricultural activity that are measured at fair value less costs to sell (see IPSAS 27, *Agriculture*);**
 - (k) **Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant accounting standard;**
 - (l) **[Not used]; and**
 - (m) **Other cash-generating assets in respect of which accounting requirements for impairment are included in another Standard.**
3. **This Standard applies to all Central Government entities**
4. **[Not used]**
5. Central Government entities that hold cash-generating assets apply the requirements of this Standard.

6. [Deleted]
7. This Standard excludes goodwill from its scope. Entities apply the requirements of the relevant 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.
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 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 29.
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 34, *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 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 cash-generating unit 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.

Central Government Entities means Government Ministries and Departments.

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

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

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are 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 Central Government 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 Central Government entity may operate independently of the non-cash-generating assets of the entity.
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 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 21. 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.
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, with assistance from the pertinent government authority. However, given the overall objectives of most Central Government entities, the presumption is that assets are non-cash-generating in these circumstances and, therefore, IPSAS 21 will apply.

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. This Standard defines “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 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

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 test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**
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 assets 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 recognised 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. Paragraph 40 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 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:
- (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 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.
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 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.
41. 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 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.

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 favourable, competitors may enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used.
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 recognised 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 orderly transaction between market participants at the measurement date, 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.

Recognizing and Measuring an Impairment Loss of an Individual Asset

71. Paragraphs 72–75 set out the requirements for recognizing and measuring impairment losses for an individual asset. The recognition and measurement of impairment losses for cash-generating units are dealt with in paragraphs 76–97.
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 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.**
- 73A. 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.
74. **When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard.**
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

76. Paragraphs 77–97 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.

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.
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 recognised or reversed for the cash-generating unit.

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

85. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 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 recognised liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

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

(see paragraphs 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.
89. It may be necessary to consider some recognised liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs to sell (or the estimated cash flow from ultimate disposal) of the cash-generating unit 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 recognised (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Impairment Loss for a Cash-Generating Unit

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

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 recognised for the asset if its carrying amount is greater than the higher of its fair value less costs to sell and the results of the allocation procedures described in paragraphs 91–93; and
 - (b) No impairment loss is recognised for the asset if the related cash-generating unit is not impaired. This applies even if the asset’s fair value less costs to sell is less than its carrying amount.
95. In some cases, non-cash-generating assets contribute to cash-generating units.
- This Standard requires that, where a cash-generating unit subject to an impairment test contains a non-cash-generating asset, that non-cash-generating asset is tested for impairment in accordance with the requirements of 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. Where an asset releases service potential to one or more cash-generating activities, but not to non-cash-generating activities, entities refer to the relevant accounting standard dealing with such circumstances.
97. **After the requirements in paragraphs 91–93 have been applied, a liability shall be recognised for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another standard.**

Reversing an Impairment Loss

98. Paragraphs 99–105 set out the requirements for reversing an impairment loss recognised for an asset or a cash-generating unit in prior periods. These requirements use the term “an asset,” but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are

set out in paragraphs 106–109 and, for a cash-generating unit, in paragraphs 110 and 111.

99. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.**
100. **In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **The asset’s market value has increased significantly during the period;**
- (b) **Significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;**
- (c) **Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset’s value in use and increase the asset’s recoverable amount materially;**

Internal sources of information

- (d) **Significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or 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 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 standard**

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

103. **An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall 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 recognised an impairment loss for that asset. An entity is required to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:
- (a) A change in the basis for recoverable amount (i.e., whether recoverable amount is based on fair value less costs to sell or value in use);
 - (b) If recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows, or in the discount rate; or
 - (c) If recoverable amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.
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

106. **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 amortization or depreciation) had no impairment loss been recognised for the asset in prior years.**
107. Any increase in the carrying amount of an asset above the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the standard applicable to the asset.
108. **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

- 108A. 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.
109. **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.**

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 pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised in accordance with paragraph 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 recognised for the asset in prior periods.**

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

Redesignation of Assets

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 Central Government 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 Central Government 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 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.**
116. In some cases, it may 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 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.**
120. **An entity shall disclose the following for each material impairment loss recognised or reversed during the period for a cash-generating asset or a cash-generating unit:**
- (a) **The events and circumstances that led to the recognition or reversal of the impairment loss;**
 - (b) **The amount of the impairment loss recognised or reversed;**
 - (c) **For a cash-generating asset:**
 - i. **The nature of the asset; and**
 - ii. **If the entity reports segment information in accordance with 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 recognised 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 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 recognised 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 an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

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)–(e) for each cash-generating unit for which the carrying amount of intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity’s total carrying amount of intangible assets with indefinite useful lives:**

- (a) The carrying amount of intangible assets with indefinite useful lives allocated to the unit;**
- (b) The basis on which the unit’s recoverable amount has been determined (i.e., value in use or fair value less costs to sell);**
- (c) If the unit’s recoverable amount is based on value in use:**
 - i. A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit’s recoverable amount is most sensitive;**
 - ii. A description of management’s approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;**
 - iii. The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit, an explanation of why that longer period is justified;**
 - iv. The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the**

justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit is dedicated; and

- v. **The discount rate(s) applied to the cash flow projections.**
- (d) **If the unit’s recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit, the following information shall also be disclosed:**
- i. **A description of each key assumption on which management has based its determination of fair value less costs to sell.**
Key assumptions are those to which the unit’s recoverable amount is most sensitive; and
 - ii. **A description of management’s approach to determining the value (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.**
- (e) **If a reasonably possible change in a key assumption on which management has based its determination of the unit’s recoverable amount would cause the unit’s carrying amount to exceed its recoverable amount:**
- i. **The amount by which the unit’s recoverable amount would exceed its carrying amount;**
 - ii. **The value assigned to the key assumption; and**
 - iii. **The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit’s recoverable amount to be equal to its carrying amount.**

124. **If some or all of the carrying amount of intangible assets with indefinite useful lives is allocated across multiple cash-generating units, and the**

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

- (a) **The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units;**
- (b) **A description of the key assumption(s);**
- (c) **A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and if not, how and why they differ from past experience or external sources of information;**
- (d) **If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' carrying amounts to exceed the aggregate of their recoverable amounts:**
 - i. **The amount by which the aggregate of the units' recoverable amounts would exceed the aggregate of their carrying amounts;**
 - ii. **The value(s) assigned to the key assumption(s); and**
 - iii. **The amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' recoverable amounts to be equal to the aggregate of their carrying amounts.**

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

Effective Date

126. [Not used]

126A. [Not used]

126B. [Not used]

126C. [Not used]

127. [Not used]

127A. Central Government entities shall apply this standard for annual financial statements covering periods beginning or after DD/MM/YY. Earlier application is not permitted.

Appendix 1 Comparison with IPSAS 26

IPSAS 26 Impairment of cash-generating assets as adopted by the Maltese Government is drawn from IPSAS 26 Impairment of cash-generating assets.

The following are the significant differences between IPSAS 26 as adopted by the Maltese Government and IPSAS 26:

Section/s	IPSAS 26 (as adopted)	IPSAS 26
2(e), (h), 6, 11	Deleted	Exception in scope included non-cash generating property, plant, and equipment and intangible assets that are measured at revalued amounts.
2(l), 8	Not used.	Exception in scope included non-current assets (or disposal groups) classified as held for sale.
3	Applicability of Standard to Central Government entities.	Applicability of Standard to all public sector entities other than Government Business Enterprises
18	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.
38	Fair value less cost to sell definition based on current terminology applied in IFRS13. Fair value less cost to	Fair value less cost to sell defined as the amount obtainable from the sale of an asset in an arm's length transaction between

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	<p>sell 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.</p>	<p>knowledgeable, willing parties, less the costs of disposal.</p>
40	<p>The standard requires that fair value less costs to sell in 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.</p>	<p>The standard requires that fair value less costs to sell in 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 arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.</p> <p>In determining this amount an entity could consider the outcome of recent transactions for similar assets within the same industry.</p>
73, 73A	<p>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</p>	<p>An impairment loss shall be recognised immediately in surplus or deficit.</p>

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	<p>impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.</p> <p>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.</p>	
108, 108A	<p>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 decrease in accordance with that other</p>	<p>A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit.</p>

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	<p>Standard.</p> <p>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.</p>	
<p>115</p>	<p>An entity shall disclose the following for each class of assets:</p> <p>(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;</p> <p>(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.</p>	<p>An entity shall disclose the following for each class of assets:</p> <p>(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</p> <p>(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.</p>

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	<p>(c) The amount of impairment losses on revalued assets recognised directly in revaluation surplus during the period; and</p> <p>(d) The amount of reversals of impairment losses on revalued assets recognised directly in revaluation surplus during the period.</p>	
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Appendix 2 Comparison with Original Draft

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

	Section/s	Original draft IPSAS 26 (as adopted)	Revised draft IPSAS 26 (as adopted)
A	2, 6,11	Exception in scope included non-cash generating property, plant, and equipment and intangible assets that are measured at revalued amounts.	Deleted. <i>[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.</i> <i>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].</i>
B	2(1),8	Exception in scope included non-current assets (or disposal groups) classified as held for sale.	Deleted <i>[References to ‘assets classified as held for sale’, addressed on IFRS 5 - Non-Current assets held for sale and discontinued operations, have been removed as this inclusion was only in <u>partial</u> fulfilment of IFRS 5.</i>

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C	18	Judgement is needed to determine which standard to apply.	<p>Judgment is needed to determine which Standard to apply, <u>with assistance from the pertinent government authority</u>.</p> <p><i>[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].</i></p>
D	73, 73A	An impairment loss shall be recognised immediately in surplus or deficit.	<p>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.</p> <p>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.</p> <p><i>[These changes were made following amendments made</i></p>

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			<p><i>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].</i></p>
E	108, 108A	<p>A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit.</p>	<p>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.</p> <p>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.</p> <p><i>[These changes were made following amendments made by the IPSASB (July 2016) in</i></p>

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			<i>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].</i>
F	115	<p>An entity shall disclose the following for each class of assets:</p> <p>(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</p> <p>(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.</p>	<p>An entity shall disclose the following for each class of assets:</p> <p>(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</p> <p>(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.</p> <p>(c) <u>The amount of impairment losses on revalued assets recognised directly in revaluation surplus during the period; and</u></p> <p>(d) <u>The amount of reversals of impairment losses on revalued assets recognised directly in revaluation surplus during the period.</u></p>

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			<p><i>[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].</i></p>
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