STATUTORY BOARD FINANCIAL REPORTING STANDARD

SB-FRS 1002

Guidance on Implementing **Impairment of Non-Cash-Generating Assets**

Contents

Guidance on Implementing SB-FRS 1002 *Impairment of Non-Cash-Generating Assets*

This guidance accompanies, but is not part of, SB-FRS 1002.

A Calculation of Value in Use

The examples illustrate aspects of SB-FRS 1002 but are not intended to provide interpretative guidance.

In the following examples, it is assumed that the fair value less costs of disposal of the asset tested for impairment is less than its value in use or is not determinable. Therefore, the asset's recoverable service amount is equal to its value in use. In these examples, the straight line method of depreciation is used.

Example 1: Depreciated Replacement Cost Approach

A private tertiary educational institution was constructed at a cost of $12 million. The estimated useful life of this private tertiary institution is 50 years. The private tertiary institution was closed 3 years later due to an unexpected decline in the demand for private tertiary education in the area. The private tertiary institution is to be converted to be used as a public primary school. The current replacement cost for a public primary school similar to the capacity of the private tertiary institution is $10 million.

Analysis

As the purpose of the private tertiary education institution has changed significantly and this change of use is not anticipated to change in the foreseeable future, impairment is indicated. The impairment loss using the depreciated replacement cost approach is determined as follows:

Carrying value of the private tertiary educational institution before change of use:

		$
	Cost of private tertiary institution	12,000,000
	Accumulated depreciation ($12m x 3/50 years)	720,000
a	Carrying amount	**11,280,000**

Replacement cost of a primary school of similar capacity to the tertiary educational institution:

		$
	Cost of public primary school	10,000,000
	Accumulated depreciation ($10m x 3/50 years)	600,000
b	Recoverable Service amount	**9,400,000**

		$
	Impairment loss (**a**-**b**)	**1,880,000**

Example 2: Restoration Cost Approach

A school building was damaged in a fire 10 years after it was constructed at a cost of $15 million. The school building has a useful life of 50 years. The restoration cost is estimated as $1,000,000 and there is no change to the useful life after the restoration. The cost of a new school building with the same capacity is $16 million. Management is not intending to restore the damaged school building in the near future.

Analysis

Indication of impairment exists due to the physical damage to the building. Impairment loss using the restoration cost approach is determined as follows:

Carrying value of the school building:

		$
	Cost	15,000,000
	Accumulated depreciation ($15m x 10/50 years)	3,000,000
a	Carrying amount	**12,000,000**

Replacement cost of a school of similar capacity:

		$
	Replacement Cost	16,000,000
	Accumulated depreciation ($16m x 10/50 years)	3,200,000
	Depreciated replacement cost (undamaged)	**12,800,000**
	Less: restoration cost	1,000,000
b	Recoverable Service amount	**11,800,000**

		$
	Impairment loss (**a**-**b**)	**200,000**

Example 3: Service Units Approach

A water treatment plant was constructed at a cost of $4 million in 20X0. The plant is estimated to treat water over its useful life 10 years. In 20X5, it was reported that one of the key features of the water treatment plant did not operate as expected resulting in a 25% reduction of its annual output over the remaining 5 years of it useful life. The replacement cost of a new water treatment plant is $5 million in 20X5.

Analysis

Indication of impairment exists due to the obsolescence of the water treatment technology. Impairment loss using the service units approach is determined as follows:

Carrying value of water treatment plant:

		$
	Cost	4,000,000
	Accumulated depreciation ($4 m x 5/10 years)	2,000,000
a	Carrying amount	**2,000,000**

Replacement cost of a water treatment plant:

		$
	Replacement Cost	5,000,000
	Accumulated depreciation ($5 m x 5/10 years)	2,500,000
b	Depreciated replacement cost before adjustment for remaining service units	**2,500,000**
c	Recoverable Service amount (b x 75%)	**1,875,000**

		$
	Impairment loss (**a**-**c**)	**125,000**

B Impairment Assessment

In applying this Standard, Statutory Boards are not required to maintain listings of non-cash generating assets and justify whether each of these assets or groups of them are impaired. Management only needs to consider whether there are indicators that may point towards any of these assets being impaired.

C Disclosures in Notes to the Financial Statements

On 31 Mar 20x1, Statutory Board A purchased 2 buildings, and both their useful lives are 50 years. One of the buildings, i.e. Building A costing $20mil, was classified as cash-generating asset; the other building, i.e. Building B costing $30mil, was classified as non-cash-generating asset.

On 1 Apr 20x6, Statutory Board A bought plant and equipment at a cost of $600,000, having a useful life of 8 years. After reviewing the recoverable amount with the carrying amount of the buildings, Statutory Board A assessed that impairment losses of $300,000 and $250,000 were required for Building A and Building B in accordance with SB-FRS 36 and SB-FRS 1002 respectively.

The disclosure in the notes to the financial statements as at 31 Mar 20x7 for property, plant and equipment would be as follows:

	Building	**Plant and Equipment**	**Total**
	$	**$**	**$**
Cost:			
As at 1 Apr 20x5	50,000,000	-	50,000,000
Addition	-	-	-
As at 31 Mar 20x6	50,000,000	-	50,000,000
Addition	-	600,000	600,000
As at 31 Mar 20x7	50,000,000	600,000	50,600,000
Accumulated depreciation and impairment:			
As at 1 Apr 20x5	4,000,000	-	4,000,000
Depreciation expense	1,000,000	-	1,000,000
As at 31 Mar 20x6	5,000,000	-	5,000,000
Depreciation expense	1,000,000	75,000	1,075,000
Impairment expense	550,000	-	550,000
As at 31 Mar 20x7	6,550,000	75,000	6,625,000
Carrying amount:			
As at 31 Mar 20x6	45,000,000	-	45,000,000
As at 31 Mar 20x7	43,450,000	525,000	43,975,000