PBE IPSAS 21 Impairment of Non-Cash-Generating Assets – Differences to NZ IFRS (PBE)

Introduction

For impairment of assets (e.g. property, plant & equipment (PPE), investments in subsidiaries), the applicable PBE impairment standard depends on whether the asset is designated to be a cash generating or non-cash generating asset. If the asset is designated as non-cash generating, PBE IPSAS 21 *Impairment of Non-Cash Generating Assets* will apply. If the asset is designated as cash generating, PBE IPSAS 26 *Impairment of Cash Generating Assets* will apply.

Under the NZ IFRS standards, the applicable asset impairment standard is NZ IAS 36 *Impairment of Assets,* regardless of whether the asset is designated as cash generating or non-cash generating. As a result, we have compared NZ IAS 36 (PBE) to PBE IPSAS 21 here, and in a separate table compared NZ IAS 36 (PBE) to IPSAS 26.

While we have identified differences, all three impairment standards contain a similar principle – that if the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset must be reduced to its recoverable amount (i.e. impaired). The broad definition of recoverable amount (i.e. the higher of its fair value less cost to sell, and value in use) is also the same across the three standards but measurement of the recoverable amount differs depending on the circumstances.

	NZ IAS 36 (PBE)	PBE IPSAS 21	Difference
1	As stated in the introduction NZ IAS 36 applies to impairment of both cash generating and non-cash generating assets. A PBE paragraph was inserted into NZ IAS 36 (PBE) to address impairment of non-cash generating assets with a cross reference to the depreciated replacement cost guidance in NZ IAS 16 (PBE). NZ IAS 36.NZ32.1-2	PBE IPSAS 21 only applies to the impairment of non-cash-generating assets. Cash generating assets are assets that are held with the primary objective of generating a commercial return. Non cash generating assets are assets other than cash generating assets. While it may not always be clear which category assets such as mixed-use assets fit into, given the overall objectives of PBEs, there is a rebuttable presumption that mixed use assets are non-cash generating assets.	The standard dealing with the impairment of assets has been replaced by two new standards separately dealing with cash generating and non-cash generating assets. An asset will need to be classified as either cash generating or non-cash generating to determine which impairment standard applies. This may not always be clear and judgement will need to be applied.

	NZ IAS 36 (PBE)	PBE IPSAS 21	Difference
2	NZ IAS 36 (PBE) lists assets to which it does not apply. NZ IAS 36.2 (Scope)	PBE IPSAS 21 excludes the same assets as NZ IAS 36 (PBE) from its scope but also excludes the following: (a) non-cash generating property plant and equipment (PPE) measured at revalued amounts; (b) non-cash generating intangible assets measured at revalued amounts; and (c) Other assets in respect of which accounting requirements for impairment are included in another PBE standards. PBE IPSAS 21.2	PBE IPSAS 21 does not require the application of an impairment test to non-cash generating PPE and intangible assets that are measured at revalued amounts. This is because revalued PPE and intangible assets are required to be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date and (b) any impairment will be taken into account in the valuation. An additional impairment test is therefore considered to be unnecessary. In the instance of a serious impairment event to specific assets within a class of assets (e.g. earthquakes affecting revalued buildings in Canterbury), those specific assets impacted should reflect the impairment event because it is a requirement of PBE IPSAS 17 to revalue with sufficient regularity that the carrying amount does not differ materially from fair value at reporting date. However, in this instance we would not expect it would automatically trigger additional revaluations in other regions over and above the agreed revaluation cycle applied to the rest of the asset class, assuming the revaluation cycle is considered sufficiently regular to ensure the carrying amount was not materially different from the fair value.

	NZ IAS 36 (PBE)	PBE IPSAS 21	Difference
3	An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another standard (for example, in accordance with the revaluation model in NZ IAS 16 (PBE)). Any impairment loss on a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard. In respect of PBEs that elect to account for revaluations of PPE on a class of asset basis, an impairment loss on a revalued asset is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for its class of asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for the class. NZ IAS 36.60 & 61.1	PBE IPSAS 21 states that impairment losses are recognised in surplus or deficit. PBE IPSAS 21 does not discuss the recognition of impairment losses on revalued PPE, because IPSAS 21 doesn't apply to revalued assets.	While PBE IPSAS 21 doesn't contemplate the impairment treatment of revalued PPE , in practice we would expect little change to current treatment because impairment losses will be reflected in revaluations and recognised as a revaluation reserve decrease in accordance with PBE IPSAS *17 Property, plant and equipment*.
4	NZ IAS 36 (PBE) contains impairment indicators for both cash and non-cash generating assets. NZIAS 36.12-16	PBE IPSAS 21 contains impairment indicators specific to non-cash generating assets and has an emphasis on service potential. PBE IPSAS 21.27-34	The impairment indicators in PBE IPSAS 21 are specific to non-cash generators and therefore may provide better guidance. However, neither list claims to be exhaustive.

	NZ IAS 36 (PBE)	PBE IPSAS 21	Difference
5	NZ IAS 36 (PBE) requires the recoverable amount of an asset to be the higher of its fair value less costs to sell and value in use. NZ IAS 36 requires that where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows, and where the entity would, if deprived of the asset, replace its remaining future economic benefits, value in use shall be determined as the depreciated replacement cost (DRC) of the asset. Guidance on DRC is found in NZ IAS 16 (PBE) *Property, Plant & Equipment*. NZ IAS 16 (PBE) does not provide guidance on the restoration cost and service units approach. NZ IAS 36.6 and 36.32.1	Similar to NZ IAS 36 (PBE), the recoverable *service amount* of a non-cash generating asset is the higher of its fair value less costs to sell and value in use. The principles relating to fair value less costs to sell under PBE IPSAS 21 are similar to those included in NZ IAS 36 (PBE), but PBE IPSAS 21 defines value in use of a non-cash generating asset as the present value of the asset's remaining service potential. The broad definition of value in use for non-cash generating assets is consistent with IAS 36 (PBE). However, PBE IPSAS 21 provides for three approaches to determine value in use: (a) Depreciated replacement cost (DRC) approach; or (b) Restoration cost approach; and (c) Service units approach. The entity will be required to disclose which approach has been used. PBE IPSAS 21.14 and 21.45-49	PBE IPSAS 21 provides for three approaches to determine value in use, where as NZ IAS 36 (PBE) provides only for the DRC approach. The use of the three approaches under IPSAS 21 to measure value in use is not a free choice. A PBE will have to consider which approach is most appropriate based on the availability of data and the nature of the impairment. The entity will be required to disclose which approach has been used. Given the widespread use of the DRC approach to valuing non-cash generating assets within the Government reporting entity under NZ IFRS, we would not expect a significant impact because of the additional approaches provided in PBE IPSAS 21.

	NZ IAS 36 (PBE)	PBE IPSAS 21	Difference
6	NZ IAS 36 does not provide guidance on the redesignation of an asset from cash-generating to non-cash generating (or vice versa).	PBE IPSAS 21 notes the following for an entity considering redesignation of assets from cash-generating to non-cash generating (or vice-versa): (a) Clear evidence is required that such a redesignation is appropriate. (b) A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. (c) Indications for an impairment test or a reversal of an impairment loss should be considered after redesignation. PBE IPSAS 21.71-72	This is a clarification of process only and in our view, re-designations under NZ IFRS (PBE) would have been likely to follow the same process outlined in PBE IPSAS 21.