PBE IPSAS 26 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 (PBE) 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 NZI AS 36 (PBE) to PBE IPSAS 26 here, and in a separate table compared NZI AS 36 (PBE) to IPSAS 21 (PBE).

While we have identified differences, all three impairment standards are similar in that if the recoverable amount of an asset is less than its carrying amount, the carrying amount of an 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 calculation of recoverable amount differs depending on the circumstances.

	NZ IAS 36 (PBE)	PBE IPSAS 26	Difference
1	As stated in the introduction NZ IAS 36 (PBE) 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 26 only applies to impairment of 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. Impairment of non-cash-generating assets is covered by PBE IPSAS 21.	The standard dealing with impairment of assets has been replaced by two new standards separately dealing with cash generating and non-cash generating assets.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 26	Difference
2	NZ IAS 36 (PBE) lists assets to which it does not apply. NZ IAS 36.2 (Scope)	PBE IPSAS 26 excludes the same assets as NZ IAS 36 (PBE) from its scope but also <u>excludes</u> the following: (a) cash generating property plant and equipment (PPE) measured at revalued amounts; (b) 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 Standard. PBE IPSAS 26.2	PBE IPSAS 26 specifically excludes from its scope cash generating PPE and intangible assets, that are measured at revalued amounts. This exclusion 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 & above the agreed revaluation cycle applied to the rest of the asset class, assuming the agreed revaluation cycle was considered sufficiently regular to ensure the carrying amount was not materially different from the fair value.

	NZ IAS 36 (PBE)	PBE IPSAS 26	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 of 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 that same class of asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of asset. NZ IAS 36.60 & 61.1	PBE IPSAS 26 states that impairment losses are recognised in surplus or deficit. PBE IPSAS 26 does not discuss the recognition of impairment losses on revalued PPE, because IPSAS 26 doesn't apply to revalued assets.	While PBE IPSAS 26 doesn't contemplate the impairment treatment of revalued PPE, we would expect little change to current practice 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 26 contains impairment indicators specific to cash generating assets. PBE IPSAS 26.25-30	While the impairment indicators in PBE IPSAS 26 are similar to NZ IAS 36 (PBE), they are not exactly the same. However, neither list claims to be exhaustive.
5	NZ IAS 36 requires that corporate assets that do not independently generate cash flows to be tested for impairment by associating the corporate assets with cash generating assets. NZ IAS 36.100-102	Where a non-cash generating asset contributes to a cash generating unit (CGU), the relevant proportion of the carrying amount of the non-cash generating asset shall be allocated to the carrying amount of the CGU prior to estimation of the CGU's recoverable amount. The allocation of the impairment loss is prorated over the cash generating assets of the CGU unit. PBE IPSAS 26.93-95	Not specifically a change, but a more detailed reminder that entities will still need to include non-cash generating assets that contribute to a CGU when identifying the extent of an impairment.

	NZ IAS 36 (PBE)	PBE IPSAS 26	Difference
6	NZ IAS 36 (PBE) does not provide guidance on the redesignation of an asset from cash-generating to non-cash generating (or vice versa).	PBE IPSAS 26 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) Indication for an impairment test or a reversal of an impairment loss should be considered after redesignation. PBE IPSAS 26.112-113	This is a clarification of process only and in our view, re-designations under NZ IFRS would have likely followed the same process outline in PBE IPSAS 26.