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| FRD 106B |  |  | Impairment of assets (May 2018) |
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| Purpose |  |  | To require all entities to document asset impairment assessments and to prescribe requirements for determining ‘value in use’ for assets of ‘not-for-profit’ entities. |
| Application |  |  | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act* *1994*. Application by State owned corporations is encouraged. |
| Operative date |  |  | Annual reporting periods commencing on or after 1 July 2017. |
|  |  |  | FRD 106A *Impairment of assets* is withdrawn and superseded effective 1 July 2017. |
| Requirements |  |  | An entity shall document the performance and conclusion of its asset impairment assessment. |
|  |  |  | When performing asset impairment tests, for not-for-profit entities, it is deemed that the future economic benefits arising from the use of an asset will be replaced if the entity concerned is deprived of its use, unless a documented specific decision to the contrary exists. |
| Definitions |  |  | Refer to paragraph 6 of AASB 136, Appendix A of AASB 13 and paragraph 30 and 31 of AASB 116 for the following definitions:  Carrying amount;  Cash-generating unit;  Current replacement cost;  Fair value;  Impairment loss;  Not-for-profit entity;  Recoverable amount;  Value in use;  Cost model; and  Revaluation model. |
| Guidance |  |  | **Impairment Indicators:** |
|  |  |  | Paragraph 12 of AASB 136 outlines the minimum indicators to be considered in assessing whether there is any indication that an asset may be impaired. |
|  |  |  | Paragraphs 12(c) and (d) are not relevant for non-cash-generating assets of not-for-profit entities. |
|  |  |  | In addition to the indicators outlined in AASB 136, entities shall also consider ‘changes to government policies or decisions that have an adverse impact on the entity’s ability to benefit from the future economic benefits of an asset’ as a minimum impairment indicator. |
|  |  |  | **Cash-generating unit:** |
|  |  |  | Paragraphs 66 to 73 of AASB 136 and Illustrative Example 1 that accompanies AASB 136 provides guidance on the identification of a ‘cash‑generating unit’ (CGU). Department of Treasury and Finance’s summary on the concept of a CGU is provided below, however, entities shall note that a CGU shall be identified in accordance with the requirements of AASB 136. |
|  |  |  | The determination of a CGU is a matter of fact and shall represent the lowest level of aggregation of assets that generate largely independent cash inflows. It shall be noted that definition of a CGU is focused on the identification of assets or group of assets that generate cash inflows, rather than net cash inflows. |
|  |  |  | Some factors relevant in identifying a CGU are:  how management monitors the entity’s operations (such as by product lines, businesses, individual locations, districts or regional areas).  how management makes decisions about continuing or disposing of the entity’s assets and operations. Where assets and operations are inter‑dependent to the extent that each asset or operation cannot operate independently, or cannot be disposed of without materially impacting other assets, it is likely that a CGU would be identified at a higher level; and  whether an active market exists for the outputs produced by an asset or group of assets. If an active market exists for the outputs produced by an asset or group of assets, even if some or all of the output is used internally, that asset or group of assets shall be identified as a CGU. |
|  |  |  | **Recoverable amount:** |
|  |  |  | The ‘recoverable amount’ of an asset is defined as the higher of an asset’s, or CGU’s, ‘value in use’ and ‘fair value less costs to sell’. |
|  |  |  | It may not be necessary to determine both the value in use and fair value less costs to sell of an asset. There is no impairment loss if either measure is greater than the asset’s ‘carrying amount’. |
|  |  |  | For not-for-profit entities, assets that are not held primarily for their ability to generate net cash inflows are typically specialised assets held for continuing use of their service capacity. Given that these assets are rarely sold, their cost of disposal is typically negligible. The recoverable amount of such assets is expected to be materially the same as fair value. As a result:  assets regularly revalued to their fair value under the revaluation model do not need to be tested for impairment; and  assets accounted for under the cost model are subject to an impairment assessment. |
| Relevant pronouncements |  |  | AASB 101 *Presentation of Financial Statements* (December 2013)  AASB 136 *Impairment of Assets* (December 2013)  AASB 2014-6 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities* (January 2017) |
| Background |  |  | AASB 136 requires at the reporting date that the recoverable amount of an asset be determined and compared with the asset’s carrying amount when there is an indication that the asset may be impaired. Impairment losses shall be recognised immediately.  This FRD has been developed to require all entities to document asset impairment assessments and to prescribe requirements for the determination of value in use for assets of not-for-profit entities.  Changes were made in February 2005 to enhance the guidance included in this FRD.  This FRD was revised in June 2016 to remove first-time adoption requirements as they are no longer required. The ‘Model for Disclosure within Financial Report’ section was also removed as this disclosure has been included in the *Model Report for Victorian Government Departments*.  Changes have been made in May 2018 to reflect the amendments to AASB 136 on the recoverable amount of non-cash-generating specialised assets of not-for-profit entities. |