STATUTORY BOARD FINANCIAL REPORTING STANDARD

SB-FRS 1002

Guidance on Implementing
Impairment of Non-Cash-Generating Assets

This Guidance is applicable for annual reporting period beginning on 1 January 2025.

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

A1 An office building was constructed at a cost of $12 million. The estimated useful life of the office building is 50 years. The office is closed 3 years later due to a change in development plans in the area. The office is converted to be used as a school. The current replacement cost for a school similar to the capacity of the office is $10 million.

Analysis

A2 As the purpose of the building 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 building before change of use:

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

Replacement cost of a school of similar capacity:

		$
	Cost of school	10,000,000
	Accumulated depreciation ($10 m 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

A3 A school building was damaged in a fire 10 years after it was constructed at a cost of $10 million. The school building has a useful life of 50 years. The restoration cost is estimated as $500,000 and there is no change to the useful life after the restoration. The cost of a new school building with the same capacity is $8 million.

Analysis

A4 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	10,000,000
	Accumulated depreciation ($10 m x 10/50 years)	2,000,000
a	Carrying amount	**8,000,000**

Replacement cost of a school of similar capacity:

		$
	Replacement Cost	8,000,000
	Accumulated depreciation ($8 m x 10/50 years)	1,600,000
	Depreciated replacement cost (undamaged)	**6,400,000**
	Less: restoration cost	500,000
b	Recoverable Service amount	**5,900,000**

		$
	Impairment loss (**a**-**b**)	**2,100,000**

Example 3: Service Units Approach

A5 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, a change in technology for water treatment resulted 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

A6 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

B1 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

C1 On 1 Apr 20X1, Statutory Board A purchased 2 buildings, and both their useful lives were 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

C2 As at 31 March 20X8, Statutory Board A performed impairment assessments on Building A and Building B and assessed that the recoverable amount was higher than the carrying amount (net of depreciation) had no impairment loss been recognised in the prior periods for both buildings. The reversal of impairment loss to increase the carrying amounts was accounted for in accordance with paragraph 117 of SB-FRS 36 and paragraph 53 of SB-FRS 1002.

There were no changes in the estimated useful lives for both buildings and plant and equipment.

The disclosure in the notes to the financial statements as at 31 Mar 20X8 for property, plant and equipment would be as follows:

	Building	**Plant and Equipment**	**Total**
	$	**$**	**$**
Cost:			
As at 1 Apr 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
Addition	-	-	-
As at 31 Mar 20X8	50,000,000	600,000	50,600,000
Accumulated depreciation and impairment:			
As at 1 Apr 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
Depreciation expense	987,500	75,000	1,062,500
Reversal of impairment expense*	(537,500)	-	(537,500)
As at 31 Mar 20X8	7,000,000	150,000	7,150,000
Carrying amount:			
As at 31 Mar 20X7	43,450,000	525,000	43,975,000
As at 31 Mar 20X8	43,000,000	450,000	43,450,000

* The amount of impairment loss to be reversed is determined as follows:

Carrying value of buildings had there been no impairment losses been recognised:

		$
	Cost	50,000,000
	Accumulated depreciation ($50 m x 7/50 years)	7,000,000
a	Carrying amount	**43,000,000**

Carrying value of buildings before reversal of impairment expense:

		$
	Cost	50,000,000
	Accumulated depreciation ($50 m x 6/50 years) + ([$50 m - $6 m - $0.55 m] x 1/[50-6] years)	6,987,500
	Impairment expense	550,000
b	Carrying amount	**42,462,500**

		$
	Impairment loss reversal (**a**-**b**)	**537,500**