Accounting Standard for Local Bodies (ASLB) 21
Impairment of Non-Cash-Generating Assets

Contents

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*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1].)*

The Accounting Standard for Local Bodies (ASLB) 21, *'Impairment of Non-Cash-Generating Assets'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and to ensure that impairment losses are recognised. This Standard also specifies when an entity would reverse an impairment loss, and prescribes disclosures.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for impairment of non-cash-generating assets, except:***

   (a) ***Inventories (see ASLB 12, 'Inventories');***

   (b) ***Assets arising from construction contracts (see ASLB 11, 'Construction Contracts');***

[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

(c) ***Financial assets***[3]***;***

(d) ***Investment Property that is measured using the fair value model (see ASLB 16, 'Investment Property'); and***

(e) *[Deleted]*

(f) *[Deleted]*

(g) ***Other assets in respect of which accounting requirements for impairment are included in another ASLB.***

3. ***This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies[4].***

4. [Deleted]

5. ***Entities that hold cash-generating assets as defined in paragraph 14, should apply ASLB 26, 'Impairment of Cash-Generating Assets', to such assets. Entities that hold non-cash-generating assets should apply the requirements of this Standard to non-cash-generating assets.***

6. This Standard excludes from its scope the impairment of assets that are dealt with in another ASLB. Entities apply ASLB 26 to their cash-generating assets, and apply this Standard to their non-cash-generating assets. Paragraphs 6−13 explain the scope of the Standard in greater detail.

7. [Deleted]

8. This Standard does not apply to inventories and assets arising from construction contracts, because existing ASLBs applicable to these assets contain requirements for recognising and measuring these assets.

9. This Standard does not apply to financial assets.

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[3] A **financial asset** is any asset that is:
(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
(i) to receive cash or another financial asset from another entity;
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

[4] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies'.*

10. This Standard does not require the application of an impairment test to an investment property that is carried at fair value in accordance with ASLB 16. This is because, under the fair value model in ASLB 16, an investment property is carried at fair value at the reporting date and any impairment will be taken into account in the valuation.

11. [Deleted]

12. Consistent with the requirements of paragraph 5 above, items of property, plant, and equipment that are classified as cash-generating assets, including those that are carried at revalued amounts under the allowed alternative treatment in ASLB 17, are dealt with under ASLB 26.

13. Investments in:

    (a) Controlled entities, as defined in ASLB 35, '*Consolidated Financial Statements'*;

    (b) Associates, as defined in ASLB 36, '*Investments in Associates and Joint Ventures'*; and

    (c) Joint arrangements, as defined in ASLB 37, '*Joint Arrangements'*;[5]

    are financial assets. Where such investments are classified as cash-generating assets, they are dealt with under ASLB 26. Where these assets are non-cash-generating assets, they are dealt with under this Standard.

Definitions

14. ***The following terms are used in this Standard with the meanings specified:***

    An active market is a market in which all the following conditions exist:

    (a) ***The items traded within the market are homogeneous;***

    (b) ***Willing buyers and sellers can normally be found at any time; and***

[5] The guidance with regard to consolidation and joint arrangements may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates, and Errors*' till the time ASLBs 35 and 37 are not formulated.

(c) ***Prices are available to the public.***

***Cash-generating assets** are assets held with the primary objective of generating a commercial return. For the purposes of impairment, goodwill is considered a cash-generating asset.*

***Costs of disposal** are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense[6].*

***"Fair value less costs to sell"** is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.*

*An **impairment** is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.*

***Impairment of Non-Cash-Generating Assets** is a loss in the service potential of a non-cash generating asset over and above the loss recognised through depreciation.*

*An **impairment loss of Non-Cash-Generating Asset** is the amount by which the carrying amount of a non-cash-generating asset exceeds its recoverable service amount.*

***Non-cash-generating assets** are assets other than cash-generating assets.*

***Recoverable service amount** is the higher of a non-cash-generating asset's 'fair value less costs to sell' and its value in use.*

***Useful life** is either:*

(a) ***The period of time over which an asset is expected to be used by the entity; or***

(b) ***The number of production or similar units expected to be obtained from the asset by the entity.***

***Value in use of a non-cash-generating asset** is the present value of the asset's remaining service potential.*

[6] Income tax expenses, wherever applicable, are excluded while determining cost of disposal.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards.

15. [Deleted]

Cash-Generating Assets

16. Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a commercial return indicates that an entity intends to generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return, even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset, even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to an asset or assets in the following paragraphs of this Standard are references to non-cash-generating asset(s).

17. There are a number of circumstances in which entities may hold some assets with the primary objective of generating a commercial return, although the majority of assets are not held for that purpose. For example, a municipal hospital/ dispensary may deploy a building for fee-paying patients. Cash-generating assets of an entity may operate independently of the non-cash-generating assets of the entity. For example, the deeds office may earn land registration fees independently from the department of land affairs.

18. In certain instances, an asset may generate cash flows although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by hospitals controlled by a Local Body, and, is accordingly a non-cash-generating asset, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

19. In other instances, an asset may generate cash flows and also be used for non-cash-generating purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or ASLB 26. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies ASLB 26 rather than this Standard.

20. In some cases, it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases, it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable rather than ASLB 26. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets, and with the related guidance in paragraphs 16–20. Paragraph 73A requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of most Local Bodies the presumption is that assets are non-cash-generating and, therefore, ASLB 21 will apply. For example, a municipal school has started tuition classes for students during summer vacation on commercial basis. However, the primary objective of municipal school is to provide education service on non-commercial basis. The commercial activities (tuition classes) carried out by municipal school during summer vacation is insignificant. In this case, the municipal school is a non-cash generating asset, and, therefore, ASLB 21 will apply.

20A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. This Standard deals with the assessment of individual assets. Goodwill is only recognised where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, no goodwill is recognised in respect of service potential that does not give

rise to related cash flows. The recoverable service amount used to assess impairment in this Standard includes service potential. Consequently, an entity applies ASLB 26 rather than this Standard to determine whether to impair goodwill.

21. Assets held by local bodies with the primary objective of generating a commercial return are cash-generating assets. Entities may hold assets to generate a commercial return. For the purposes of this Standard, an asset held by an entity is classified as a cash-generating asset if the asset (or unit of which the asset is a part) is operated with the objective of generating a commercial return through the provision of goods and/or services to external parties.

Depreciation

22. Depreciation and amortisation are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term amortisation is generally used instead of depreciation. Both terms have the same meaning.

Impairment

23. This Standard defines an impairment as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation). Impairment of non-cash-generating asset, therefore, reflects a decline in the service potential/utility of an asset to the entity that controls it. For example, a local body hospital may have a medical waste incinerator that it no longer uses. In addition, because of the specialised nature of the facility and its location, it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. The asset is regarded as impaired, as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives.

Identifying an Asset that may be Impaired

24. Paragraphs 26−34 specify when recoverable service amounts would be determined.

25. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraph 27 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.

26. ***An entity should assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable service amount of the asset.***

26A. ***Irrespective of whether there is any indication of impairment, an entity should also test an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current reporting period, that intangible asset should be tested for impairment before the end of the current reporting period.***

26B. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

27. ***In assessing whether there is any indication that an asset may be impaired, an entity should consider, as a minimum, the following indications:***

External sources of information

(a) ***Cessation, or near cessation, of the demand or need for services provided by the asset;***

(b) ***Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place***

in the near future, in the technological, legal, or government policy environment in which the entity operates;

Internal sources of information

(c) ***Evidence is available of physical damage of an asset;***

(d) ***Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose off an asset before the previously expected date;***

(e) ***A decision to halt the construction of the asset before it is complete or in a usable condition; and***

(f) ***Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.***

28. The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are utilised in providing those services, but negative fluctuations in demand are not necessarily indications of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired. Demand may be considered to have nearly ceased when it is so low that the entity (a) would not have attempted to respond to that demand, or (b) would have responded by not acquiring the asset being considered for impairment testing.

29. The list in paragraph 27 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset's recoverable service amount. For example, any of the following may be an indication of impairment:

(a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; or

(b) A significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.

30. The events or circumstances that may indicate an impairment of an asset will be significant, and will often have prompted discussion by the governing board, management, or media. A change in a parameter such as demand for the service, extent or manner of use, legal environment, or government policy environment would indicate impairment only if such a change was significant, and had or was anticipated to have a long-term adverse effect. A change in the technological environment may indicate that an asset is obsolete, and requires testing for impairment. A change in the use of an asset during the period may also be an indication of impairment. This may occur when, for example, a building used as a hospital undergoes a change in use and is used for storage. In assessing whether an impairment has occurred, the entity needs to assess changes in service potential over the long-term. This underlines the fact that the changes are seen within the context of the anticipated long-term use of the asset. However, the expectations of long-term use can change, and the entity's assessments at each reporting date would reflect that. The Implementation Guidance sets out examples of impairment indications referred to in paragraph 27.

31. In assessing whether a halt in construction would trigger an impairment test, the entity would consider (a) whether construction has simply been delayed or postponed, (b) whether there is an intention to resume construction in the near future, or (c) whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work-in-progress and is not considered as halted.

32. Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph 27(f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:

(a) Significantly higher costs of operating or maintaining the asset, compared with those originally budgeted; and

(b) Significantly lower service or output levels provided by the asset, compared with those originally expected due to poor operating performance.

A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up. Similarly, a significant increase in maintenance costs may indicate that higher costs need to be incurred to maintain the asset's performance at a level indicated by its most recently assessed standard of performance. In other cases, direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

33. The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 27.

34. If there is an indication that an asset may be impaired, this may indicate that (a) the remaining useful life, (b) the depreciation (amortisation) method, or (c) the residual value for the asset needs to be reviewed and adjusted in accordance with the ASLB applicable to the asset, even if no impairment loss is recognised for the asset.

Measuring Recoverable Service Amount

35. This Standard defines recoverable service amount as the higher of an asset's "fair value, less costs to sell", and its value in use. Paragraphs 36-50 set out the basis for measuring recoverable service amount.

36. It is not always necessary to determine both an asset's "fair value less costs to sell" and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount.

37. It may be possible to determine "fair value less costs to sell", even if an asset is not traded in an active market. Paragraph 42 sets out possible alternative bases for estimating "fair value less costs to sell" when an active market for the asset does not exist. However, sometimes it will not be possible to determine "fair value less costs to sell", because there is no basis for making a reliable[7] estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its recoverable service amount.

38. If there is no reason to believe that an asset's value in use materially exceeds its "fair value less costs to sell", the asset's "fair value less costs to sell" may be used as its recoverable service amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds. However, for many local body's non-cash-generating assets that are held on an ongoing basis to provide specialised services or public goods to the community, the value in use of the asset is likely to be greater than its "fair value less costs to sell".

39. In some cases, estimates, averages, and computational shortcuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining "fair value less costs to sell" or value in use.

39A. [Refer to Appendix 1]

Fair Value Less Costs to Sell

40. The best evidence of an asset's "fair value less costs to sell" is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

41. If there is no binding sale agreement, but an asset is traded in an active market, "fair value less costs to sell" is the asset's market price less the costs of disposal. The appropriate market price is usually the

[7] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that it purports to represent or could reasonably be expected to represent.

current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate "fair value less costs to sell", provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

42. If there is no binding sale agreement or active market for an asset, "fair value less costs to sell" is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. "Fair value less costs to sell" does not reflect a forced sale, unless management or the governing body is compelled to sell immediately.

43. Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining "fair value less costs to sell". Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in ASLB 39, '*Employee Benefits'*) and costs associated with reducing or reorganising an operation following the disposal of an asset, are not direct incremental costs to dispose off the asset.

Value in Use

44. This Standard defines the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential. Value in use in this Standard refers to value in use of a non-cash-generating asset, unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs 45-49, as appropriate.

Depreciated Replacement Cost Approach

45. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through

replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

46. The replacement cost and reproduction cost of an asset are determined on an optimised basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features that are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

47. In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset.

Restoration Cost Approach

48. Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower. Paragraphs 45 and 47 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service Units Approach

49. Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its

impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Application of Approaches

50. The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:

    (a) Impairments identified from significant long-term changes in the technological, legal, or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach, when appropriate;

    (b) Impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near cessation of demand, are generally measurable using a depreciated replacement cost or a service units approach, when appropriate; and

    (c) Impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach, when appropriate.

Recognising and Measuring an Impairment Loss

51. Paragraphs 52-57 set out the requirements for recognising and measuring impairment losses for an asset. In this Standard, impairment loss refers to impairment loss of a non-cash-generating asset unless otherwise specified.

52. ***If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable service amount. That reduction is an impairment loss.***

53. As noted in paragraph 26, this Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a potential impairment loss is present. Paragraphs 27−33 identify key indications that an impairment loss may have occurred.

54. ***An impairment loss should be recognised immediately in surplus or deficit, unless the asset is carried at revalued amount in***

accordance with another Standard (for example, in accordance with the revaluation model in ASLB 17 and ASLB 31). Any impairment loss of a revalued asset should be treated as a revaluation decrease in accordance with that other Standard.

54A. An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets.

55. ***When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity should recognise a liability if, and only if, that is required by another ASLB.***

56. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero, with a corresponding amount recognised in surplus or deficit. A liability would be recognised only if another ASLB so requires. An example is when a municipal building (community hall/warehouse) is no longer used as the area has been declared as green zone and the entity is required by law to remove the said building. The entity may need to make a provision for dismantling costs if required by ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets'*.

57. ***After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.***

Reversing an Impairment Loss

58. Paragraphs 59-70 set out the requirements for reversing an impairment loss recognised for an asset in prior periods.

59. ***An entity should assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity should estimate the recoverable service amount of that asset.***

60. ***In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, an entity should consider, as a minimum, the following indications:***

External sources of information

(a) ***Resurgence of the demand or need for services provided by the asset;***

(b) ***Significant long-term changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;***

Internal sources of information

(c) ***Significant long-term changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs;***

(d) ***A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and***

(e) ***Evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.***

61. Indications of a potential decrease in an impairment loss in paragraph 60 mainly mirror the indications of a potential impairment loss in paragraph 27.

62. The list in paragraph 60 is not exhaustive. An entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, either of the following may be an indication that the impairment loss may have reversed:

(a) A significant rise in an asset's market value; or

(b) A significant long-term increase in the demand or need for the services provided by the asset.

63. A commitment to discontinue or restructure an operation in the near future is an indication of a reversal of an impairment loss of an asset belonging to the operation, where such a commitment constitutes a significant long-term change, with a favourable effect on the entity, in the extent or manner of use of that asset. Circumstances where such a commitment would be an indication of reversal of impairment often relate to cases where the expected discontinuance or restructuring of the operation would create opportunities to enhance the utilisation of the asset. An example is an x-ray machine that has been underutilised by a clinic managed by a local body hospital and, as a result of restructuring, is expected to be transferred to the main radiology department of the hospital where it will have significantly better utilisation. In such a case, the commitment to discontinue or restructure the clinic's operation may be an indication that an impairment loss recognised for the asset in prior periods may have to be reversed.

64. If there is an indication that an impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that (a) the remaining useful life, (b) the depreciation (amortisation) method, or (c) the residual value may need to be reviewed and adjusted in accordance with the ASLB applicable to the asset, even if no impairment loss is reversed for the asset.

65. ***An impairment loss recognised in prior periods for an asset should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset should, except as described in paragraph 68, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.***

66. This Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a reversal of an impairment loss is present. Paragraph 60 identifies key indications that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased.

67. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. Paragraph 77 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

    (a) A change in the basis for recoverable service amount (i.e., whether recoverable service amount is based on "fair value less costs to sell" or value in use);

    (b) If recoverable service amount was based on value in use, a change in estimate of the components of value in use; or

    (c) If recoverable service amount was based on "fair value less costs to sell", a change in estimate of the components of "fair value less costs to sell".

68. ***The increased carrying amount of an asset attributable to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of depreciation or amortisation) if no impairment loss had been recognised for the asset in prior periods.***

69. ***A reversal of an impairment loss for an asset should be recognised immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in ASLB 17 and ASLB 31). Any reversal of an impairment loss of a revalued asset should be treated as a revaluation increase in accordance with that other Standard.***

69A. A reversal of an impairment loss on a revalued asset is recognised directly in the revaluation reserve and increases the revaluation surplus for that class of assets. However, to the extent that an impairment loss on the same class of revalued assets was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit.

70. ***After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying***

amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation of Assets

71. ***The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets should only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the listed indications applicable to the asset after redesignation.***

72. There are circumstances in which entities may decide that it is appropriate to redesignate a non-cash-generating asset as a cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from a social housing unit, for which no charge is made. The social housing unit has been demolished, and the site will be developed for industrial and retail purposes. It is intended that, in future, the plant will be used to treat industrial effluent at commercial rates. In light of this decision, the entity decides to redesignate the effluent treatment plant as a cash-generating asset.

Disclosure

72A. ***An entity should disclose the criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets.***

73. ***An entity should disclose the following for each class of assets:***

    (a) ***The amount of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of income and expenditure in which those impairment losses are included; and***

    (b) ***The amount of reversals of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of income and expenditure in which those impairment losses are reversed;***

(c) ***The amount of impairment losses on revalued assets recognised directly in revaluation surplus during the period; and***

(d) ***The amount of reversals of impairment losses on revalued assets recognised directly in revaluation surplus during the period.***

73A. [Deleted]

74. A class of assets is a grouping of assets of similar nature and use in an entity's operations.

75. The information required in paragraph 73 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment, at the beginning and end of the period, as required by ASLB 17.

76. ***An entity that reports segment information in accordance with ASLB 18, 'Segment Reporting', should disclose the following for each segment reported by the entity:***

(a) ***The amount of impairment losses recognised in surplus or deficit during the period; and***

(b) ***The amount of reversals of impairment losses recognised in surplus or deficit during the period.***

77. ***An entity should disclose the following for each material impairment loss recognised or reversed during the period:***

(a) ***The events and circumstances that led to the recognition or reversal of the impairment loss;***

(b) ***The amount of the impairment loss recognised or reversed;***

(c) ***The nature of the asset;***

(d) ***The segment to which the asset belongs, if the entity reports segment information in accordance with ASLB 18;***

(e) ***Whether the recoverable service amount of the asset is its "fair value less costs to sell" or its value in use;***

(f) ***If the recoverable service amount is "fair value less costs to sell", the basis used to determine "fair value less costs to***

sell" (such as whether fair value was determined by reference to an active market); and

(g) ***If the recoverable service amount is value in use, the approach used to determine value in use.***

78. ***An entity should disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 77:***

(a) ***The main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses); and***

(b) ***The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.***

79. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.

80-83. [Refer to Appendix 1]

Implementation Guidance

This guidance accompanies, but is not part of, ASLB 21.

Indications of Impairment (paragraph 27)

External Sources of Information

(a) **Cessation, or Near Cessation, of the Demand or Need for Services Provided by the Asset.**

IG1. The asset still maintains the same service potential, but demand for that service has ceased or nearly ceased. Examples of assets impaired in this manner include:

(a) A school closed because of a lack of demand for school services, arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future;

(b) A school designed for 1,500 students currently has an enrolment of 150 students – the school cannot be closed because the nearest alternative school is 100 kilometres away. The entity does not envisage the enrolment increasing. At the time of establishment, enrolment was 1,400 students – the entity would have acquired a much smaller facility had future enrolment been envisaged to be 150 students. The entity determines that demand has nearly ceased, and the recoverable service amount of the school should be compared with its carrying amount; and

(c) A stadium whose principal occupant does not renew its occupancy agreement, with the result that the facility is expected to close.

(b) **Significant Long-Term Changes with an Adverse Effect on the Entity in the Technological, Legal, or Government Policy Environment in Which the Entity Operates.**

Technological Environment

IG2. The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. Examples of assets impaired in this manner are:

(a) Medical diagnostic equipment that is rarely or never used because a newer machine embodying more advanced technology provides more accurate results (would also meet indication (a) above);

(b) Software that is no longer being supported by the external supplier because of technological advances, and the entity does not have the personnel to maintain the software; and

(c) Computer hardware that has become obsolete as the result of technological development.

Legal or Government Policy Environment

IG3. An asset's service potential may be reduced as a result of a change in a law or regulation. Examples of impairments identified by this indication include:

(a) An automobile (Bus) that does not meet new emission standards or new noise standards;

(b) A school that can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exits; and

(c) A drinking water plant that cannot be used because it does not meet new environmental standards.

Internal Sources of Information

(c) **Evidence is Available of Physical Damage of an Asset.**

IG4. Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide. Examples of assets impaired in this way include:

(a) A building damaged by fire or flood or other factors;

(b) A building that is closed due to identification of structural deficiencies;

(c) Sections of an elevated roadway that have sagged, indicating that these sections of roadway will need to be replaced in 15 years rather than the original design life of 30 years;

(d) A dam whose spillway has been reduced as a result of a structural assessment;

(e) A water treatment plant whose capacity has been reduced by an intake blockage, and the removal of the blockage is not economical;

(f) A bridge that is weight-restricted due to identification of structural deficiencies; and

(g) Equipment that is damaged and can no longer be repaired, or for which repairs are not economically feasible.

(d) **Significant Long-Term Changes, with an Adverse Effect on the Entity, in the Extent to Which an Asset is Used, or is Expected to be Used.**

IG5. The asset still maintains the same service potential, but long-term changes have an adverse effect on the extent to which the asset is used. Examples of circumstances in which assets may be impaired in this manner include:

(a) If an asset is not being used to the same degree as it was when originally put into service, or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. An example of an asset that might be identified as potentially being impaired by this indication is a mainframe computer that is underutilized, because many applications have been converted or developed to operate on servers or PC platforms. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used; and

(b) If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indication is a Community hall that is being used for storage rather than for letting out purposes.

(e) **A decision to Halt the Construction of the Asset Before it is Complete or in a Usable Condition.**

IG6. An asset that will not be completed cannot provide the service intended.

Examples of assets impaired in this manner include those where:

(a) Construction was stopped due to identification of an archaeological discovery or environmental condition, such as a nesting ground for a threatened or endangered species; or

(b) Construction was stopped due to a decline in the economy.

The circumstances that led to the halting of construction will also be considered. If construction is deferred, that is, postponed to a specific future date, the project could still be treated as work-in-progress, and is not considered as halted.

(f) **Evidence is Available from Internal Reporting that Indicates that the Service Performance of an Asset is, or will be, Significantly Worse than Expected.**

IG7. Internal reports may indicate that an asset is not performing as expected, or its performance is deteriorating over time. For example, an internal health department report on operations of a rural clinic may indicate that an x-ray machine used by the clinic is impaired because the cost of maintaining the machine has significantly exceeded that originally budgeted.

IG8. Internal report states that the x-ray machine emits harmful radiation and also inspected by concerned Government department that there is a need to close that facility down permanently in the interest of public health safety norms. It indicates that the aforesaid machine is impaired.

Illustrative Examples

These examples accompany, but are not part of, ASLB 21.

Measurement of Impairment Loss

Note: In the following examples, it is assumed that the "fair value less costs to sell" of the asset tested for impairment is less than its value in use or is not determinable, unless otherwise indicated. 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.

Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Technological Environment—Underutilised Mainframe Computer

IE1. In 1999, a Local Body 'A' purchased a new mainframe computer at a cost of Rs.10 million[8]. Local body 'A' estimated that the useful life of the computer would be seven years, and that on average 80 percent of central processing unit (CPU) capacity would be used by the various departments. A buffer of excess CPU time of 20 percent was expected and needed to accommodate scheduling jobs to meet peak period deadlines. Within a few months after acquisition, CPU usage reached 80 percent, but declined to 20 percent in 2003 because many applications of the departments were converted to run on desktop computers or servers. A computer is available on the market at a price of ` 500,000 that can provide the remaining service potential of the mainframe computer using the remaining applications.

Evaluation of Impairment

The indication of impairment is the significant long-term change in the technological environment resulting in conversion of applications from the mainframe to other platforms, and therefore, decreased usage of the mainframe computer. (Alternatively it can be argued that a significant decline in the extent of use of the mainframe indicates impairment.) Impairment loss is determined using the depreciated replacement cost approach as follows:

[8] In these examples monetary amounts are denominated in "rupees" (Rs.).

a	**Acquisition cost, 1999**	**10,000,000**
	Accumulated depreciation, 2003 (a × 4 ÷ 7)	**5,714,286**
b	**Carrying amount, 2003**	**4,285,714**
c	**Replacement cost**	**500,000**
	Accumulated depreciation (c × 4 ÷ 7)	**285,714**
d	**Recoverable Service Amount**	**214,286**
	Impairment loss (b – d)	**4,071,428**

Near Cessation in Demand for the Services Provided by a Non-cash-Generating Asset—Underutilised Mainframe Software Application

IE3. In 1999, a local body B purchased a software license for an application for its new mainframe computer for ` 350,000. Local body B estimated that the useful life of the software would be seven years, and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software. By 2003, usage of the application had declined to 15 percent of its originally anticipated demand. A license for a software application to replace the remaining service potential of the impaired software application costs ` 70,000.

Evaluation of Impairment

IE4. The indication of impairment is technological change, brought about by the loss of mainframe computer capacity.

a	**Acquisition cost, 1999**	**350,000**
	Accumulated depreciation, 2003 (a × 4 ÷ 7)	**200,000**
b	**Carrying amount, 2003**	**150,000**
c	**Replacement cost**	**70,000**
	Accumulated amortisation (c × 4 ÷ 7)	**40,000**
d	**Recoverable Service Amount**	**30,000**
	Impairment loss (b – d)	**120,000**

Significant Long-term Change with Adverse Effect on the Entity in the Manner of Use—Hospital building Used as Warehouse

IE5. In 1997, Local Body constructed a hospital at a cost of ` 10 million. The estimated useful life of the hospital is fifty years. In 2003, the hospital is closed due to a population shift caused by less employment opportunity in the area and non-availability of advanced facility at the hospital. The hospital is converted to use as a storage warehouse, and Local Body has no expectation that the building would be reopened for use as a hospital. The current replacement cost for a warehouse with the same storage capacity as the hospital is ` 4.2 million.

Evaluation of Impairment

IE6. Impairment is indicated, because the purpose for which the building is used has changed significantly from a hospital building to a storage facility, and this is not anticipated to change for the foreseeable future. An impairment loss using depreciated replacement cost approach would be determined as follows:

a	**Historical cost, 1997**	**10,000,000**
	Accumulated depreciation, 2003 (a × 6 ÷ 50)	**1,200,000**
b	**Carrying amount, 2003**	**8,800,000**
c	**Replacement cost of a storage facility of similar capacity**	**4,200,000**
	Accumulated depreciation (c × 6 ÷ 50)	**504,000**
d	**Recoverable Service Amount**	**3,696,000**
	Impairment loss (b - d)	**5,104,000**

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use— School Partially Closed Due to Decline in Enrolment

IE7. In 1983, the Local Body A constructed a school at the cost of ` 2.5 million. The entity estimated the school would be used for 40 years. In 2003, the enrolment declined from 1000 to 200 students as the result of population shift caused by the bankruptcy of a major employer in the area. The management decided to close the top two floors of the three-story school building. Local Body A has no expectation that enrolments will increase in the future such that the upper stories would be reopened. The current replacement cost of the one-story school is estimated at ` 1.3 million.

Evaluation of Impairment

IE8. Impairment is indicated because the extent of use of the school has changed from three floors to one floor as the result of a reduction in the number of students from 1000 to 200 students. The reduction in the extent of use is significant, and the enrolment is expected to remain at the reduced level for the foreseeable future. Impairment loss using a depreciated replacement cost approach would be determined as follows:

a	**Acquisition cost, 1983**	**2,500,000**
	Accumulated depreciation, 2003 (a × 20 ÷ 40)	**1,250,000**
b	**Carrying amount, 2003**	**1,250,000**
c	**Replacement cost**	**1,300,000**
	Accumulated depreciation (c × 20 ÷ 40)	**650,000**
d	**Recoverable Service Amount**	**650,000**
	Impairment loss (b - d)	**600,000**

Restoration Cost Approach

Physical Damage—School Bus Damaged in Road

IE9. In 1998, Local body X Primary School acquired a bus at the cost of ` 200,000 to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 2003, the bus sustained damage in a road accident, requiring ` 40,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is ` 250,000 in 2003.

Evaluation of Impairment

IE10. Impairment is indicated because the bus has sustained physical damage in the road accident. Impairment loss using the restoration cost approach would be determined as follows:

a	**Acquisition cost, 1998**	**200,000**
	Accumulated depreciation, 2003 (a × 5 ÷ 10)	**100,000**
b	**Carrying amount, 2003**	**100,000**
c	**Replacement cost**	**250,000**
	Accumulated depreciation (c × 5 ÷ 10)	**125,000**
d	**Depreciated replacement cost (undamaged state)**	**125,000**
	Less: restoration cost	**40,000**
e	**Recoverable Service Amount**	**85,000**
	Impairment loss (b - e)	**15,000**

Physical Damage—Building damaged by fire

IE11. In 1984, the Local body Y built an office building at a cost of ` 50 million. The building was expected to provide service for 40 years. In 2003, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed, and structural repairs costing ` 35.5 million are to be made to restore the office building to an occupiable condition. The replacement cost of a new office building is ` 100 million.

Evaluation of Impairment

IE12. Impairment is indicated because the office building has sustained physical damage due to the fire. Impairment loss using a restoration cost approach would be determined as follows:

a	**Acquisition cost, 1984**	**50,000,000**
	Accumulated depreciation, 2003 (a × 19 ÷ 40)	**23,750,000**
b	**Carrying amount, 2003**	**26,250,000**
c	**Replacement cost (of a new building)**	**100,000,000**
d	**Accumulated depreciation (c × 19 ÷ 40)**	**47,500,000**
	Depreciated replacement cost (undamaged)	**52,500,000**
	Less: restoration cost	**35,500,000**
e	**Recoverable Service Amount**	**17,000,000**
	Impairment loss (b - e)	**9,250,000**

Service Units Approach

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use— High-rise Building Partially Unoccupied for the Foreseeable Future

IE13. In 1988, local body Z constructed a 20-storey office building for use by the Council at the cost of ` 80 million. The building was expected to have a useful life of 40 years. In 2003, National Safety Regulations required that the top four stories of high rise buildings should be left unoccupied for the foreseeable future. The building has a "fair value less costs to sell" of ` 45 million in 2003 after regulations came into force. The current replacement cost of a similar 20-storey building is ` 85 million.

Evaluation of Impairment

IE14. Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new National Safety Regulations. The reduction in the extent of use is significant, and the occupation of the building is expected to remain at the reduced level (16 floors) for the foreseeable future. Impairment loss using the service units approach would be determined as follows:

(a)	**Acquisition cost, 1988**	**80,000,000**
	Accumulated depreciation, 2003 (a × 15 ÷ 40)	**30,000,000**
(b)	**Carrying amount, 2003**	**50,000,000**
(c)	**Replacement cost (20-story building**	**85,000,000**
	Accumulated depreciation (c × 15 ÷ 40)	**31,875,000**
(d)	**Depreciated replacement cost before adjustment for remaining service units**	**53,125,000**
(e)	**Value in Use of the building after the regulation came into force (d × 16 ÷ 20)**	**42,500,000**
(f)	**Fair value less costs to sell of the building after regulation came into force**	**45,000,000**
(g)	**Recoverable service amount (higher of e and f) Impairment loss (b – g)**	**45,000,000**
		5,000,000

Evidence from Internal Reporting—Higher Cost of Operating the Printing Machine

IE15. In 1998, Local Body X Education Department purchased a new printing machine at a cost of ` 40 million. The Department estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 2003, it was reported that an automated feature of the machine's function does not operate as expected, resulting in a 25 percent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is ` 45 million in 2003.

Evaluation of Impairment

IE16. Impairment is indicated by evidence from internal reporting that the service performance of the printing machine is worse than expected. Circumstances suggest that the decline in the service potential of the asset is significant and of a long-term nature. Impairment loss using a service units approach is determined as follows:

a	**Acquisition cost, 1998**	**40,000,000**
	Accumulated depreciation (a × 5 ÷ 10)	**20,000,000**
b	**Carrying amount, 2003**	**20,000,000**
c	**Replacement cost**	**45,000,000**
	Accumulated depreciation (c × 5 ÷ 10)	**22,500,000**
d	**Depreciated replacement cost before adjustment for remaining service units**	**22,500,000**
e	**Recoverable Service Amount (d × 75%)**	**16,875,000**
	Impairment loss (b - e)	**3,125,000**

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 21 and the corresponding International Public Sector Accounting Standard (IPSAS) 21, '*Impairment of Non-Cash-Generating Assets'.*

Comparison with IPSAS 21, *'Impairment of Non-Cash-Generating Assets'*

1. Different terminologies have been used in ASLB 21 as compared to corresponding IPSAS 21, e.g., the terms 'statement of income and expenditure' and 'entities' have been used in place of 'statement of financial performance' and 'public sector entities'.

2. The following paragraphs of IPSAS 21 have been deleted. In order to maintain consistency with the corresponding IPSAS 21, the paragraph numbers have been retained:

   (i) The concept of intangible assets with indefinite useful life has not been retained in ASLBs. Accordingly, paragraph 26A has been modified and paragraph 39A has been deleted.

   (ii) Paragraphs 80-81 pertaining to transitional provision have been deleted as a separate ASLB 33, '*First-time Adoption of IPSASs*' has been issued that contains all transitional provisions at one place.

   (iii) Paragraphs 82-83 pertaining to effective date have been deleted as ASLB 21 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

3. Paragraph 3 of IPSAS 21 that pertained to applicability of IPSASs has been deleted by the IPSASB from this Standard because a separate document of IPSASB on '*Applicability of IPSASs*' now deals with the same. However, the provision pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs.

4. The following paragraphs of IPSAS 21 have been amended to make the same more relevant in the context of Local Bodies in India:

Paragraph 14: Definitions

(i) The terms '*impairment of non-cash-generating asset*' and 'impairment loss of non-cash-generating asset' have been defined additionally to distinguish it from impairment/ impairment loss of cash-generating asset more clearly.

(ii) A footnote has been appended to the definition of 'cost of disposal' for more clarification.

5. The following paragraphs appear as 'Deleted' in IPSAS 21. In order to maintain consistency with paragraph numbers of IPSAS 21, the paragraph numbers have been retained in ASLB 21:

(i) Paragraph 2 (e) & (f),

(ii) Paragraph 4,

(iii) Paragraph 7,

(iv) Paragraph 11,

(v) Paragraph 15,

(vi) Paragraph 73A,

(vii) Paragraph 80, and

(viii) Paragraph 81.

6. Some examples of IPSAS 21 have been deleted or modified in light of Indian conditions, and some examples have been included in ASLB 21. (refer paragraphs 18, 20, 23 & 56)

7. Consequential changes resulting from the above departures have been made in ASLB 21.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 21 and the existing Accounting Standard (AS) 28, 'Impairment of Assets'.

Comparison with Existing AS 28, *'Impairment of Assets'*

1. For impairment purposes, ASLB Framework has concept of segregating assets into 'cash-generating assets' and 'non-cash-generating assets' and accordingly, two different ASLBs deal with this topic. However, Existing AS Framework has no such segregation and has only one AS dealing with this topic.

2. The method of measurement of value in use of a non-cash-generating asset under ASLB 21 is different from that applied to a cash-generating asset under existing AS 28. ASLB 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. Existing AS 28 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.

3. ASLB 21 does not include a change in the market value of the asset as an indication of impairment whereas existing AS 28 provides a significant, unexpected decline in market value as part of the minimum set of indications of impairment. ASLB 21 refers to it in commentary.

4. ASLB 21 includes a decision to halt the construction of an asset before completion as an indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss whereas existing AS 28 does not include such an indicator.

5. ASLB 21 deals with the impairment of individual assets. However, impairment prescriptions under existing AS 28 are based on concept of 'cash-generating unit' which would include more than one individual asset.

6. Existing AS 28 has concept of Corporate Assets, i.e., the assets other than goodwill that contribute to the future cash flows of both the cash-generating units under review and other cash generating units. ASLB 21 has no such concept.

7. ASLB 21 uses different terminology in certain instances. For example, ASLB 21 uses the term “recoverable service amount” whereas existing AS 28 uses the terms “recoverable amount”.