



AAAG APPLICATION GUIDANCE ON IPSAS 21: IMPAIRMENT OF NON-CASH-GENERATING ASSETS

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Simplified guidance for Member Countries applying IPSAS 21

Purpose of these Application Guidances

This guidance translates IPSAS 21 into practical public sector accounting guidance. This guidance explains IPSAS 21 in clear professional accounting language for the public sector. They guide entities on how to identify non-cash-generating assets, assess indicators of impairment, measure recoverable service amount, recognize impairment losses, reverse impairment losses where appropriate, present impairment effects and prepare disclosures supported by practical decision points, accounting entries and illustrative examples.

Document	AAAG Application Guidance on IPSAS 21 – Impairment of Non-Cash-Generating Assets
Prepared for	Public sector entities and practitioners implementing IPSAS under AAAG guidance
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1.0	Initial AAAG IPSAS 21 Application Guidance	Governing Council	July 2026	As approved

This guidance provides simplified Application Guidance on IPSAS 21 for consistent public sector implementation. They are not a substitute for IPSAS 21. Where there is any conflict between this guidance and any provision of the standard, IPSAS 21 and the jurisdictional legal framework shall prevail. They should be read together with IPSAS 21, applicable public finance legislation, asset management rules, capital asset registers, valuation instructions, chart of accounts guidance and financial management directives.

The Application Guidance is a non-authoritative explanatory reference for implementation by member countries. They support consistent interpretation and application of IPSAS 21 and are not presented as a policy template or local accounting manual.

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1.0 Introduction

1.1 IPSAS 21 in applied public sector accounting

These Application Guidances provide practical accounting guidance for the impairment of non-cash-generating assets. They are designed to assist public sector entities to apply IPSAS 21 in a simplified and consistent manner without losing the core accounting requirements of the Standard. The guidances are intended for use by member countries preparing IPSAS financial statements on an accrual basis to:

- a) Develop a working-level understanding of the principles in IPSAS 21.
- b) Identify whether an asset is within the scope of the relevant impairment Standard before testing it.
- c) Apply consistent impairment review, measurement, recognition, reversal and disclosure procedures.
- d) Prepare audit-ready working papers, management judgments, journal entries and financial statement disclosures.
- e) Support transition from cash-based or modified cash reporting to accrual-based financial reporting for public sector assets.

1.2 Objective of the guidances

The objective of these guidances is to support accurate and consistent accounting for impairment of non-cash-generating assets. They are an application reference and are not presented as a local accounting policy template. They should be used to support consistent interpretation, impairment reviews, impairment testing, accounting entries, management judgments, audit evidence and financial statement disclosures.

Entities should apply these guidances alongside their approved asset recognition and measurement policies.

Core IPSAS 21 principle in simple terms

Under IPSAS 21, non-cash-generating assets should be reported at amounts that do not exceed their recoverable service amount. Where an asset's carrying amount is higher than the service potential that remains recoverable from its use or disposal, the entity should recognise an impairment loss to reflect the reduction in the asset's service potential.

2.0 Understanding Non-Cash-Generating Assets

2.1 Meaning of a non-cash-generating asset

A non-cash-generating asset is an asset held primarily to provide goods, services, regulatory capacity, administrative capacity or other public service potential, rather than to generate a commercial return. In most government Ministries, Departments and Agencies (MDAs), most infrastructure, buildings, equipment, roads, schools, clinics, security facilities and administrative assets are non-cash-generating assets.

An asset does not become cash-generating merely because it occasionally produces cash inflows. If fees or charges are incidental to service delivery and do not represent a commercial return objective, the asset remains non-cash-generating. The assessment focuses on the primary objective for holding the asset.

2.2 Meaning of impairment

Impairment is a loss in future economic benefits or service potential that is greater than the normal systematic consumption of the asset through depreciation or amortisation. An asset is impaired when its carrying amount is greater than its recoverable service amount. In simple terms, impairment arises when an asset has lost part of its ability to provide services, beyond the normal loss already recognized through depreciation or amortization. Impairment reflects an additional loss caused by events or conditions such as physical damage, obsolescence, reduced demand, halted construction or long-term changes in the way the asset is used.

Term	Applied meaning for IPSAS 21
Carrying amount	The amount at which the asset is recognised after deducting accumulated depreciation or amortisation and accumulated impairment losses.
Recoverable service amount	The higher of the asset's fair value less costs to sell and its value in use.
Fair value less costs to sell	The amount obtainable from selling the asset in an orderly transaction less directly attributable disposal costs.
Value in use	The present value of the asset's remaining service potential. For non-cash-generating assets this is normally estimated using a service-potential approach rather than discounted cash flows.
Impairment loss	The amount by which the carrying amount of the asset exceeds its recoverable service amount.
Useful life	The period over which the asset is expected to be used by the entity or the number of service units expected from the asset.

2.3 Relationship between IPSAS 21 and IPSAS 26

IPSAS 21 applies to non-cash-generating assets while IPSAS 26 applies to cash-generating assets. Before performing an impairment test, the entity must determine which Standard applies. In public sector reporting, this distinction is important because non-cash-generating assets are measured by reference to recoverable service amount, while cash-generating assets are measured by reference to recoverable amount based on commercial cash flows.

2.4 Scope and Classification Decision Framework

2.5 Assets within the scope of IPSAS 21

IPSAS 21 applies to accrual basis public sector entities when accounting for impairment of non-cash-generating assets. In practice, the Standard

commonly applies to non-cash-generating property, plant and equipment as well as intangible assets measured under the cost model.

The Standard may also be relevant to investments in controlled entities, associates and joint ventures where those investments are non-cash-generating and are not accounted for under a financial instrument's impairment model.

2.6 Assets outside the scope of IPSAS 21

IPSAS 21 does not apply where specific impairment rules are included in other standards, for example, for inventories and receivables.

Asset or item	Reason IPSAS 21 does not apply
Inventories	Inventories are tested and written down under the inventory Standard.
Non-cash-generating PPE carried at revalued amounts	Regular revaluation is expected to reflect impairment effects in the valuation.
Financial assets	Financial instruments Standards contain their own impairment requirements.
Investment property measured at fair value	Fair value measurement captures decreases in value through the applicable investment property Standard.
Non-cash-generating intangible assets carried at revalued amounts	Regular fair value revaluation is expected to reflect impairment effects.
Other assets with impairment rules in another IPSAS	The specific IPSAS dealing with that asset is applied.

2.7 Classification decision framework

Question	Decision point	Result
Why is the asset held?	Assess the approved mandate, budget decision, project approval, service delivery objective and operating model.	If held primarily to provide public service capacity, apply IPSAS 21.
Are cash inflows incidental?	Consider whether user charges merely recover part of cost or regulate demand.	Incidental fees do not normally change the asset into a cash-generating asset.
Is a commercial return expected?	Consider whether the entity intends to generate positive cash inflows and earn a return that reflects the risk of holding the asset.	If commercial return is the primary objective, apply IPSAS 26.
Is the objective mixed or unclear?	Document management judgement and apply criteria consistently to similar assets.	Where service delivery is dominant, IPSAS 21 will usually be the appropriate Standard.
Has the purpose changed?	Review formal decisions, changes in use, restructuring plans, concession arrangements or commercialization directives.	Redesignation is permitted only when clear evidence supports the change.

3.0 Identifying Assets that may be Impaired

3.0 Annual review for indicators

At each reporting date, the entity assesses whether there is any indication that a non-cash-generating asset may be impaired. This annual assessment is an impairment check involving a review of relevant evidence and indicators. It does not automatically require a valuation or detailed measurement exercise for every asset.

Where at least one impairment indicator exists, the entity estimates the asset's recoverable service amount and compares it with the carrying amount. This measurement exercise is the impairment test.

3.1 External indicators of impairment

Indicator	Public sector interpretation	Example evidence
Cessation or near cessation of demand or need for services	The public service provided by the assets is no longer required or demand has significantly reduced for the foreseeable future.	Closure of a school due to depopulation; unused water facility after relocation of a settlement.
Adverse long-term technological changes	Technology has changed so significantly that the asset can no longer provide the intended service efficiently or at all.	Specialised medical equipment becomes obsolete because the health system moves to a different technology.
Adverse legal or government policy changes	A change in law, regulation, public policy or programme design reduces or eliminates the asset's service potential.	Government policy discontinues a public programme supported by dedicated facilities.

Indicator	Public sector interpretation	Example evidence
Adverse environmental or economic conditions affecting service demand	External conditions reduce the asset's ability to support services over the remaining useful life.	A transport asset serves an area that has been permanently abandoned after a natural disaster.

3.2 Internal indicators of impairment

Indicator	Public sector interpretation	Example evidence
Physical damage	The asset has been damaged by accident, fire, flood, vandalism, conflict, poor maintenance or other events.	A clinic wing is structurally damaged and cannot be used until major restoration is undertaken.
Significant long-term change in use	The extent or manner of use has changed or will change adversely.	A building becomes idle; a department plans to discontinue an operation; an asset is expected to be disposed of earlier than planned.
Decision to halt construction	Management or government decides to stop construction before the asset is complete or usable.	A partially constructed regional office is abandoned because the service delivery model has changed.
Evidence from internal reporting	Internal reports show that the asset's service	Operating statistics, maintenance records or engineering reports

Indicator	Public sector interpretation	Example evidence
	performance is significantly worse than expected.	show that service capacity has fallen sharply.

3.3 Annual testing of specific intangible assets

An intangible asset with an indefinite useful life or an intangible asset not yet available for use is tested for impairment annually, regardless of whether any impairment indicator exists. The test should be performed at the same time each year unless the asset was first recognised during the current reporting period, in which case it should be tested before year-end.

Example 1 – Indefinite-life intangible asset

Area	Application
Facts	A government digital platform with an indefinite useful life is recognised at a carrying amount of CU5,000,000. It is not amortised because its useful life is assessed as indefinite. The platform must be tested for impairment annually even if no impairment indicator exists.
Accounting assessment	Annual testing is required. If the platform's recoverable service amount is below carrying amount, an impairment loss is recognised. The entity should also reassess whether the indefinite useful life remains supportable.

4.0 Impairment Check and Impairment Test

Process

Step	Action	Output
1	Compile the population of assets within the scope of IPSAS 21 from the fixed asset register and project records.	Complete list of non-cash-generating assets to review.
2	Perform an impairment check for external and internal indicators at reporting date.	Documented conclusion on whether indicators exist.
3	If no indicator exists and no annual test is required, retain existing carrying amount subject to normal depreciation or amortisation.	Working paper signed off; no impairment test required.
4	If an indicator exists, determine the recoverable service amount.	Valuation or service-potential estimate supported by evidence.
5	Compare carrying amount with recoverable service amount.	Impairment loss if carrying amount exceeds recoverable service amount.
6	Recognise impairment loss, update asset register and revise future depreciation or amortisation.	Journal entry, updated carrying amount and revised depreciation schedule.
7	Prepare disclosures and retain audit evidence.	Financial statement note and working paper file.

Step	Action	Output
	Impairment check versus impairment test An impairment check is the annual review for indicators. An impairment test is the measurement exercise performed only when indicators exist, or when IPSAS 21 requires annual testing for an indefinite-life intangible asset or an intangible asset not yet available for use.	

5.0 Measuring Recoverable Service Amount

5.1 Measurement principle

Recoverable service amount is the maximum value an entity expect to recover from the asset either by using it or selling it. It is calculated as the higher of fair value less costs to sell or value in use. If either amount is higher than the asset's carrying amount, the asset is not impaired and it is not necessary to calculate the other amount. If there is no evidence that one amount exceeds the carrying amount, the entity estimates both amounts where practicable.

Measure	Meaning	Practical evidence
Fair value less costs to sell	The amount that could be obtained from selling the asset, less incremental disposal costs.	Binding sale agreement, active market price, independent valuation, recent comparable transactions, auction evidence, disposal cost estimates.
Value in use	The present value of remaining service potential.	Depreciated replacement cost, restoration cost or service units approach supported by engineering, valuation, asset management or operational data.

5.1 Fair value less costs to sell

The best evidence of fair value less costs to sell is a price in a binding sale agreement in an orderly transaction, adjusted for directly attributable disposal

costs. Where no binding sale agreement exists, the entity uses an active market price if available. If neither exists, the entity uses the best available information, such as recent transactions for similar assets, independent valuation, market evidence or an internally documented estimate reviewed by an appropriate officer.

Costs to sell include incremental costs directly attributable to disposal, such as legal fees, auction fees, broker fees and removal costs. They do not include finance costs, general administrative overheads or costs that would have been incurred regardless of disposal.

5.2 Value in use

For non-cash-generating assets, value in use reflects remaining service potential rather than profit-generating cash flows. IPSAS 21 permits service-potential approaches that are more appropriate for assets held for public service delivery.

6.0 Value in Use Measurement Approaches

Approach	When useful	Measurement logic
Depreciated replacement cost approach	Useful where the asset can be replaced or reproduced and the service capacity required can be identified.	Estimate the current cost to replace or reproduce the asset's remaining service potential, using the lower of replacement cost and reproduction cost where applicable, then depreciate to reflect consumed service potential.
Restoration cost approach	Useful where the impairment arises from physical damage and the asset can be restored.	Start with the asset's depreciated replacement cost before damage and deduct the estimated cost of restoring the service potential lost.
Service units approach	Useful where service capacity has reduced but the asset still provides measurable service units.	Estimate depreciated replacement cost before impairment and reduce it in proportion to the service units now expected compared with the original service potential.

6.1 Choosing the appropriate approach

Nature of impairment	Commonly appropriate approach	Rationale
External indicator such as permanent demand reduction	Depreciated replacement cost or service units approach	The asset may still exist physically, but the service potential required by the entity has reduced.
Physical damage	Restoration cost or depreciated replacement cost approach	The loss relates to damaged service potential that can be restored or replaced.
Long-term change in use	Depreciated replacement cost or service units approach	The asset's remaining service potential should be aligned with the new expected use.
Halted construction	Fair value less costs to sell or service-potential estimate based on remaining usable components	The asset may not yet be capable of providing the intended service.

6.2 Documentation for value in use

- source of replacement or reproduction cost estimates;
- basis for useful life, consumed service potential and remaining service potential;
- engineering, technical or valuation reports used;
- service units before and after impairment;
- cost of restoration where the restoration cost approach is used;
- review and approval by asset management, finance and management.

6.3 Recognition and Measurement of Impairment Losses

6.4 Recognition rule

An impairment loss is recognised when, and only when, the recoverable service amount of the asset is lower than its carrying amount. The carrying amount is written down to its recoverable service amount. The impairment loss is recognised in the Statement of Financial Performance, unless another applicable IPSAS requires a different treatment.

Accounting event	Debit	Credit
Recognition of impairment loss	Impairment loss – Statement of Financial Performance	Accumulated impairment loss / asset account
If the asset is derecognised because no service potential remains	Impairment loss – Statement of Financial Performance	Asset account, net of accumulated depreciation and impairment
If a related obligation arises and another IPSAS requires a liability	Relevant expense or asset account under that IPSAS	Provision or liability account

Example 2 – Physical damage to a public clinic building

Area	Application
Facts	A district clinic building has a carrying amount of CU4,800,000. Flood damage has made part of the building unusable. The clinic continues to provide services from the remaining wing. Engineers estimate that restoration of the damaged wing would cost CU900,000. The depreciated replacement cost of the building immediately before

Area	Application
	impairment is CU4,700,000. Fair value less costs to sell is not relevant because the building is specialized and there is no active market evidence.
Accounting assessment	The asset is non-cash-generating because it is held for public health service delivery. Physical damage is an internal impairment indicator. Under the restoration cost approach, value in use is estimated as depreciated replacement cost before impairment less restoration cost.

Illustrative calculation

Item	Amount / explanation
Carrying amount before impairment	4,800,000
Value in use using restoration cost approach	$4,700,000 - 900,000 = 3,800,000$
Recoverable service amount	3,800,000
Impairment loss	$4,800,000 - 3,800,000 = 1,000,000$

Illustrative accounting entry

Accounting event	Debit	Credit
Recognise impairment loss	Impairment loss – Statement of Financial Performance 1,000,000	Accumulated impairment loss / buildings 1,000,000

Disclosure point

Disclose the event causing impairment, the amount recognised, the asset class and the restoration cost approach used to estimate value in use if material.

Example 3 – Reduction in service units of an administrative building

Area	Application
Facts	A ministry building has a carrying amount of CU10,000,000. Because of structural restrictions, only 60 percent of its floor area can be used for the remaining useful life. The depreciated replacement cost of the building before adjusting for service units is CU9,600,000.
Accounting assessment	The building remains a non-cash-generating asset. The service units approach is appropriate because the impairment reduces measurable service capacity. Recoverable service amount is estimated by adjusting depreciated replacement cost for the remaining usable service units.

Illustrative calculation

Item	Amount / explanation
Depreciated replacement cost before service unit adjustment	9,600,000
Remaining service units	60%
Recoverable service amount	$9,600,000 \times 60\% = 5,760,000$
Impairment loss	$10,000,000 - 5,760,000 = 4,240,000$

Illustrative accounting entry

Accounting event	Debit	Credit
Recognise impairment loss	Impairment loss – surplus or deficit 4,240,000	Accumulated impairment loss / buildings 4,240,000

Example 4 – Halted construction of a regional office

Area	Application
Facts	A regional office project has accumulated costs of CU2,500,000. Government approves a new digital service delivery model and formally stops construction before the building is complete or usable. Salvage value less disposal costs is estimated at CU600,000. No alternative use has been approved.
Accounting assessment	A decision to halt construction before completion is an impairment indicator. The recoverable service amount is limited to the amount recoverable from sale or salvage unless management can demonstrate remaining service potential from alternative use.

Illustrative calculation

Item	Amount / explanation
Carrying amount	2,500,000
Recoverable service amount	600,000
Impairment loss	1,900,000

Illustrative accounting entry

Accounting event	Debit	Credit
Recognise impairment loss	Impairment loss – Statement of Financial Performance 1,900,000	Construction work-in- progress 1,900,000

Example 5 – Technological obsolescence of specialised equipment

Area	Application
Facts	A laboratory machine used for public testing services has a carrying amount of CU1,200,000. New regulation requires a different testing method, and the current machine can perform only limited legacy tests. Replacement cost for required service capacity is CU900,000, and accumulated consumption of service potential is estimated at CU500,000. Fair value less costs to sell is CU300,000.
Accounting assessment	The adverse legal and technological change indicates impairment. Value in use using depreciated replacement cost is CU400,000, which is higher than fair value less costs to sell. Recoverable service amount is CU400,000.

Illustrative calculation

Item	Amount / explanation
Replacement cost for remaining service potential	900,000
Less consumed service potential	(500,000)
Value in use	400,000
Fair value less costs to sell	300,000
Recoverable service amount	400,000
Impairment loss	1,200,000 – 400,000 = 800,000

Illustrative accounting entry

Accounting event	Debit	Credit
Recognise impairment loss	Impairment loss – Statement of Financial Performance 800,000	Equipment 800,000

6.5 Impact on depreciation and amortisation

After an impairment loss is recognised, future depreciation or amortisation is adjusted so that the revised carrying amount, less any residual value, is allocated systematically over the asset's remaining useful life. Impairment does not replace depreciation. The entity continues to depreciate or amortise the impaired carrying amount unless the asset has no remaining service potential or has been derecognised.

Example 6 – No impairment where recoverable service amount exceeds carrying amount

Area	Application
Facts	A public training facility has a carrying amount of CU3,000,000. Demand for in-person training fell during the year, but the facility was repurposed for regional examinations and community training. Depreciated replacement cost based on the revised service potential is estimated at CU3,400,000.
Accounting assessment	Although an indicator was identified, the impairment test shows that recoverable service amount exceeds carrying amount. No impairment loss is recognised. The entity documents the indicator, measurement basis and conclusion, and shall be accounted for under IPSAS 45.

6.6 Asset register and budgetary records

The fixed asset register should be updated to show the impairment loss, revised carrying amount, revised depreciation or amortisation charge, revised useful life if applicable and reference to the impairment working paper. Where budgetary or asset management systems are separate from the general ledger, reconciliations should be updated to avoid differences between operational asset records and financial reporting records.

6.7 Reversing Impairment Losses

6.8 Annual review for reversal indicators

At each reporting date, an entity must assess whether an impairment loss recognised in prior periods no longer exists or may have decreased. If an indication of reversal exists, the entity estimates the asset's recoverable service amount using the same methods described in Sections 6 and 7. Recoverable service amount remains the higher of fair value less costs to sell and value in use. Value in use should be determined using the appropriate service-potential method, such as the depreciated replacement cost approach, restoration cost approach or service units approach, based on the nature of the original impairment and the evidence available at the reporting date. The entity then compares the revised recoverable service amount with the asset's carrying amount and applies the reversal limit in Section 9.2.

Type of indicator	Examples of reversal indicators
External indicators	Resurgence of demand or need for services; favourable long-term technological, legal or policy changes affecting the asset.

Type of indicator	Examples of reversal indicators
Internal indicators	Favourable long-term changes in the extent or manner of use; evidence that service performance is better than expected; resumption of construction after a previous halt.

6.8 Limit on reversal

A reversal of impairment is recognised only when there has been a change in the estimates used to determine the recoverable service amount since the last impairment loss was recognised. The carrying amount after reversal cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior periods.

Accounting event	Debit	Credit
Reversal of impairment loss	Asset account	Reversal of impairment loss – Statement of Financial Performance
Future depreciation after reversal	Depreciation expense	Accumulated depreciation, based on revised carrying amount and remaining useful life

Example 7 – Reversal after restoration of an asset

Area	Application
Facts	In the prior year, a fire damaged a wing of a public library building and the entity recognised an impairment loss of CU500,000. During the current year, the damaged wing was restored. Restoration expenditure of CU300,000 was incurred and met the recognition criteria for

Area	Application
	capitalisation as part of the building. After current-year depreciation and the capitalised restoration expenditure, the carrying amount of the building before considering any reversal is CU1,800,000. At the current reporting date, engineering and valuation evidence shows that the building's service potential has substantially recovered. The recoverable service amount, determined using the restoration cost approach supported by depreciated replacement cost evidence, is CU2,400,000. If no impairment loss had been recognised in the prior year, the carrying amount at the current reporting date would have been CU2,250,000.
Accounting assessment	The restoration and improved service potential are indicators that the prior impairment loss may have decreased. The entity estimates recoverable service amount using IPSAS 21 measurement principles and compares it with the carrying amount. The reversal is capped at the lower of the recoverable service amount and the carrying amount that would have been determined if the prior-year impairment loss had not been recognised. Restoration expenditure is accounted for separately from the impairment reversal; the source of funding, including insurance proceeds or public funds, does not change the reversal limit.

Illustrative calculation

Item	Amount / explanation
Recoverable service amount at current reporting date	CU2,400,000
Carrying amount before reversal	CU1,800,000
Maximum permitted carrying amount after reversal	Lower of CU2,400,000 recoverable service amount and CU2,250,000 no-impairment carrying amount = CU2,250,000
Maximum reversal and carrying amount after reversal	Reversal: CU2,250,000 – CU1,800,000 = CU450,000. Carrying amount after reversal: CU2,250,000.

Illustrative accounting entry

Accounting event	Debit	Credit
Record current-year restoration and reversal of prior-year impairment loss	Buildings / restoration asset component CU300,000 Accumulated impairment loss – buildings CU450,000	Cash / Payables CU300,000 Reversal of impairment loss – Statement of Financial Performance CU450,000

7.0 Redesignation of Assets

An asset may be redesignated from non-cash-generating to cash-generating, or from cash-generating to non-cash-generating, only when clear evidence supports the redesignation. A redesignation is not made merely because an asset earns incidental revenue in a period or fails to earn revenue in a period. The entity should consider the primary objective for which the asset is held after the change.

Situation	Likely treatment
A public hospital begins charging cost-recovery fees to some patients while the dominant objective remains public health service delivery.	The asset normally remains non-cash-generating; IPSAS 21 continues to apply.
A government-owned training centre is transferred to a commercial model with market-based pricing and a requirement to earn a commercial return.	Clear evidence may support redesignation to cash-generating; IPSAS 26 may apply prospectively.
A commercial facility is repurposed for public social services after a policy decision.	Clear evidence may support redesignation to non-cash-generating; IPSAS 21 may apply prospectively.

The redesignation itself does not automatically trigger an impairment loss or reversal. At the next reporting date, the entity applies the indicators relevant to the new classification and performs an impairment test only if required.

Example 8 – Asset with incidental revenue remains non-cash-generating

Area	Application
Facts	A museum building is used primarily to provide cultural heritage services. The museum charges small entry fees to regulate visitor numbers and recover part of operating costs. The fees do not target a commercial return and are not sufficient to recover full costs.
Accounting assessment	The building remains non-cash-generating because its primary objective is public service delivery. IPSAS 21 applies. The entity should disclose the criteria used to distinguish non-cash-generating from cash-generating assets if material to the financial statements.

8.0 Presentation and Disclosure

8.1 Presentation

Impairment losses and reversals are presented in Statement of Financial Performance unless another IPSAS requires a different treatment. The line item used should be clear and consistent, for example “impairment losses on non-cash-generating assets” or as part of “depreciation, amortisation and impairment” with adequate note disclosure.

8.2 Disclosure requirements

Disclosure area	Required information in applied terms
Classification criteria	The criteria developed to distinguish non-cash-generating assets from cash-generating assets.
By class of assets	The amount of impairment losses and reversals recognised during the period and the statement of financial performance line items in which they are included.
Material individual impairment loss or reversal	Events and circumstances, amount recognised, nature of the asset, asset class, segment if applicable, whether recoverable service amount is fair value less costs to sell or value in use, and the basis or approach used.
Aggregate immaterial items	Main classes of assets affected and main events and circumstances causing impairment losses or reversals.
Measurement basis	Where value in use is used, disclose the approach applied: depreciated replacement cost, restoration cost or service units approach.

8.3 Illustrative accounting policy note

Non-cash-generating assets are assets held primarily to provide public services rather than to generate a commercial return. At each reporting date, the entity assesses whether there is any indication that such assets may be impaired. Where an indication exists, or where annual testing is required for an intangible asset with an indefinite useful life or an intangible asset not yet available for use, the entity estimates the recoverable service amount. Recoverable service amount is the higher of fair value less costs to sell and value in use. Value in use is measured by reference to the present value of remaining service potential, using the depreciated replacement cost, restoration cost or service units approach as appropriate. Where carrying amount exceeds recoverable service amount, an impairment loss is recognised in surplus or deficit. Reversals of impairment losses are recognised when there is evidence that the impairment has decreased, subject to the limit that the carrying amount does not exceed the amount that would have been determined had no impairment loss been recognised.

8.4 Illustrative disclosure note

Asset class	Impairment losses recognised	Reversals recognised	Main cause
Buildings	XXX	XXX	Physical damage and long-term change in use.
Infrastructure assets	XXX	XXX	Reduced service demand and revised service units.
Plant and equipment	XXX	XXX	Technological obsolescence and

Asset class	Impairment losses recognised	Reversals recognised	Main cause
			restoration of service potential.
Intangible assets	XXX	XXX	Annual impairment testing and review of service potential.

9.0 Controls, Documentation and Year-End Procedures

A robust impairment process depends on coordination between finance, asset management, technical departments, capital projects teams, valuation officers and programme managers. The impairment review should not be treated as a finance-only exercise because impairment indicators often arise first in operational reports, engineering reports, programme decisions and budget documentation.

Control area	Minimum procedure	Evidence
Asset population	Reconcile fixed asset register to general ledger and identify assets within IPSAS 21 scope.	Asset register reconciliation and scope mapping.
Indicator review	Obtain confirmations from asset users, technical officers and programme managers on impairment indicators.	Signed impairment review templates.
Measurement	Support recoverable service amount with valuation, engineering, replacement cost or service unit evidence.	Valuation reports, cost schedules, engineering reports, management approvals.
Judgement review	Review classification, approach selection, useful life changes and reversal limits.	Management judgement paper and approval minutes.
Journal processing	Post impairment and reversal entries with references to working papers.	Journal voucher and trial balance reconciliation.

Control area	Minimum procedure	Evidence
Disclosure	Prepare note disclosures and reconcile to general ledger and asset register.	Disclosure checklist and note support file.

9.1 Frequently Asked Questions

FAQ 1: Is every asset valued every year?

No. Every asset within scope is reviewed for indicators annually. A detailed impairment test is performed only when an indicator exists, or when annual testing is specifically required for certain intangible assets.

FAQ 2: Is impairment the same as depreciation?

No. Depreciation or amortisation is the systematic allocation of an asset's depreciable amount over its useful life. Impairment is an additional loss of service potential or economic benefits beyond normal depreciation or amortisation.

FAQ 3: Can an impaired asset still be used?

Yes. An asset may be impaired even though it continues to be used. The issue is whether its carrying amount exceeds the recoverable service amount.

FAQ 4: Should a public asset be treated as cash-generating because it charges a fee?

Not necessarily. The entity considers the primary objective of holding the asset. Fees that are incidental to service delivery or cost recovery do not normally make the asset cash-generating.

FAQ 5: Can an impairment loss be reversed?

Yes, but only where there is evidence that the impairment has decreased and there has been a change in estimates. The reversal is capped at the carrying amount that would have existed if no impairment had been recognised.

FAQ 6: What if the impairment loss exceeds the carrying amount?

The asset is reduced to zero. A liability is recognised only if another IPSAS requires a present obligation to be recognised.

FAQ 7: Does IPSAS 21 apply to assets carried at revalued amounts?

Non-cash-generating PPE and intangible assets carried at revalued amounts are outside the scope of IPSAS 21 because impairment effects are expected to be reflected through the valuation process.

FAQ 8: Who should provide impairment evidence?

Finance coordinates the process, but evidence should be obtained from asset managers, engineers, programme managers, valuers, ICT teams and legal or policy officers depending on the nature of the asset.

10.0 Implementation Checklist

Area	Checklist item	Responsible function
Scope	Identify assets within the scope of IPSAS 21 and exclude assets covered by other IPSAS impairment requirements.	Finance / Asset Management
Classification	Document criteria used to distinguish non-cash-generating assets from cash-generating assets.	Finance / Management
Asset register	Reconcile asset register to general ledger and confirm carrying amounts, useful lives and depreciation.	Finance / Asset Management
Indicators	Perform annual impairment check using internal and external indicators.	Finance / Asset Users
Annual intangible tests	Test indefinite-life intangible assets and intangible assets not yet available for use annually.	Finance / ICT / Valuation
Measurement	Estimate recoverable service amount where required and document measurement approach.	Finance / Valuer / Technical Unit
Recognition	Post impairment losses and reversals with approved journals and supporting calculations.	Finance
Depreciation	Revise future depreciation or amortisation after impairment or reversal.	Finance / Asset Management
Disclosure	Prepare disclosures by class of asset and material impairment event.	Finance

Area	Checklist item	Responsible function
Governance	Obtain management review and approval for significant judgments and estimates.	Management / Audit

10.1 Minimum impairment working paper file

- a) asset identification number, description, location and asset class;
- b) carrying amount before impairment review;
- c) classification as non-cash-generating and basis for judgement;
- d) impairment indicators considered and conclusion;
- e) measurement of fair value less costs to sell, where relevant;
- f) measurement of value in use and approach selected;
- g) calculation of impairment loss or reversal;
- h) revised depreciation or amortisation schedule;
- i) journal voucher reference and disclosure note support;
- j) management review and approval evidence.

11.0 References

- k) IPSAS 21, Impairment of Non-Cash-Generating Assets.
- l) IPSAS 26, Impairment of Cash-Generating Assets.
- m) IPSAS 17, Property, Plant and Equipment.
- n) IPSAS 31, Intangible Assets.
- o) IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.
- p) CGAM 21 and 26, Impairment of Assets, used as a format and practical application reference.
- q) Maltese Government IPSAS 21 and 26 Impairment Guidances, used as a scope and practice reference.
- r) AAAG IPSAS 39 Application Guidances, used as a style and structure reference.



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