AAAG

AFRICAN ASSOCIATION OF ACCOUNTANTS GENERAL

AAAG APPLICATION GUIDANCE ON IPSAS 26:

IMPAIRMENT OF CASH-GENERATING ASSETS

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A Simplified guidance for Member Countries implementing IPSAS 26

Purpose of these Application Guidance

This guidance translate IPSAS 26 into practical public sector accounting guidance. They explain how entities should identify cash-generating assets and cash-generating units, assess indicators of impairment, measure recoverable amount, recognise impairment losses, reverse impairment losses where appropriate, present impairment effects and prepare disclosures supported by illustrative examples, practical decision points, accounting entries and disclosure guidance.

Document	AAAG Application Guidance on IPSAS 26 - Impairment of Cash-Generating Assets
Prepared for	Public sector entities and practitioners implementing IPSAS 26 under AAAG member countries
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Version control

Version	Reason for introduction or change	Approved by	Issue date	Effective date
1.0	Initial AAAG IPSAS 26 Application Guidance	Governing Council	July 2026	As approved

Authority of the Standard

This guidance provides simplified Application Guidance on IPSAS 26 for consistent public sector implementation. They are not a substitute for IPSAS 26. Where there is any conflict between this guidance and any provision of the standard, IPSAS 26 and the jurisdictional legal framework shall prevail. They should therefore, be read together with IPSAS 26, applicable public finance legislation, civil service rules, pension laws and approved national financial management directives.

The Application Guidance are a non-authoritative explanatory reference for implementation by member countries. They support consistent interpretation and application of IPSAS 26 and are not presented as a policy template or local accounting manual.

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1.0 Introduction

1.1 IPSAS 26 in applied public sector accounting

This Application Guidance provide practical accounting guidance for the impairment of cash-generating assets. They are designed to assist public sector entities to apply IPSAS 26 in a simplified and consistent manner without losing the core accounting requirements of the Standard. The guidance 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 26.
b) Determine whether an asset is within the scope of the relevant impairment Standard before performing an impairment test.
c) Apply consistent procedures for impairment review, measurement, recognition, reversal and disclosure.
d) Prepare audit-ready working papers, accounting judgments and financial statement information.
e) Support transition from cash-based or modified cash reporting to accrual-based financial reporting for public sector assets.

1.2 Objective of the guidance

The objective of these guidance is to support accurate and consistent accounting for impairment of cash-generating assets. A statement of financial position should not report a cash-generating asset or cash-generating unit at an amount higher than the amount recoverable through use or disposal. Where the carrying amount is not supportable by the recoverable amount, an impairment loss is recognised.

Core IPSAS 26 principle in simple terms
A cash-generating asset is held primarily to earn a commercial return. If the carrying amount of the asset or cash-generating unit exceeds the amount recoverable through sale or future cash flows from use, the carrying amount is reduced to recoverable amount, and the resulting reduction is recognised as an impairment loss.

Entities should apply this guidance alongside their approved asset recognition and measurement policies.

2.0 Understanding Cash-Generating Assets

2.0 Meaning of a cash-generating asset

A cash-generating asset is an asset held primarily to generate a commercial return, rather than to provide goods, services or regulatory capacity as its dominant objective. That objective exists when the entity intends to generate positive cash inflows and earn a return that reflects the risk involved in holding the asset. An asset may remain cash-generating even if it does not achieve the expected return in a particular reporting period.

Cash-generating assets are less common in core government ministries than non-cash-generating assets. They may, however, arise in public sector entities that operate commercial services, rental facilities, fee-based trading units, government-owned utilities, commercial laboratories, ports, parking facilities or other activities managed with a commercial return objective. The assessment focuses on the primary objective for holding the asset, not merely on whether some cash is collected.

2.1 Meaning of impairment

Impairment is a loss in future economic benefits or service potential beyond the normal systematic consumption recognised through depreciation or amortisation. For a cash-generating asset, impairment is assessed by comparing the carrying amount with the recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is derived from expected future cash flows from continuing use and ultimate disposal, discounted at an appropriate rate.

Term	Applied meaning for IPSAS 26
Carrying amount	The amount at which the asset is recognised after deducting accumulated depreciation or amortisation and accumulated impairment losses.
Recoverable amount	The higher of fair value less costs to sell and 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 future cash flows expected from continuing use of the asset and from its ultimate disposal.
Cash-generating unit	The smallest identifiable group of assets that generates cash inflows largely independent of cash inflows from other assets or groups of assets.
Impairment loss	The amount by which the carrying amount of the asset or cash-generating unit exceeds recoverable amount.

2.2 Relationship between IPSAS 26 and IPSAS 21

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

3.0 Scope and Classification Decision Framework

3.1 Assets within the scope of IPSAS 26

IPSAS 26 applies to accrual basis public sector entities when accounting for impairment of cash-generating assets. In practice, the Standard commonly applies to cash-generating property, plant and equipment measured under the cost model and cash-generating intangible assets measured under the cost model. It also applies to cash-generating units where an individual asset does not generate cash inflows that are largely independent of other assets or groups of assets. Investments in controlled entities, associates and joint ventures are considered under IPSAS 26 when they are cash-generating in nature and under IPSAS 21 when they are non-cash generating in nature.

3.2 Assets outside the scope of IPSAS 26

IPSAS 26 does not apply where another IPSAS contains specific impairment or measurement requirements such as inventories, financial assets, investment properties, biological assets and assets measured at fair value.

Asset or item	Reason IPSAS 26 does not apply
Inventories	Inventories are tested and written down under the inventory Standard.
Financial assets	Financial instruments Standards contain their own impairment requirements.
Investment property measured at fair value	Fair value measurement captures changes in value through the applicable investment property Standard.
Cash-generating PPE carried at revalued/ current value amounts	The revaluation model reflects value changes through the valuation process. Apply IPSAS 26 after IPSAS 45 revaluation/ current value requirements, impairment is treated as a revaluation decrease where applicable.

Asset or item	Reason IPSAS 26 does not apply
Deferred tax assets	Deferred tax accounting requirements are addressed by the relevant national or international standard.
Assets arising from employee benefits	Employee benefit Standards contain their own accounting requirements.
Cash-generating intangible assets carried at revalued amounts	Regular revaluation is expected to reflect impairment effects.
Goodwill acquired in an acquisition	Goodwill impairment is addressed by relevant international or national standards.
Biological assets measured at fair value less costs to sell	Agriculture Standards contain specific measurement requirements.
Non-current assets or disposal groups classified as held for sale	The relevant held-for-sale measurement requirements apply.
Other assets with impairment rules in another Standard	The specific Standard dealing with that asset is applied.

3.3 Classification decision framework

Question	Decision point	Result
Is the asset held to generate a commercial return?	Assess mandate, pricing policy, business plan, revenue targets, risk-return expectations and management reporting.	If yes, IPSAS 26 applies.
Are revenues incidental or	Consider whether fees are incidental to service	If yes, the asset will normally be non-cash-generating and IPSAS 21 applies.

Question	Decision point	Result
cost-recovery only?	delivery or merely recover part of costs.	
Does the asset generate independent cash inflows?	Assess whether cash inflows can be attributed to the individual asset rather than a group.	If yes, test the individual asset. If no, test the CGU.
Is the asset used for both service delivery and commercial purposes?	Determine the primary objective and document criteria consistently.	Apply the Standard that reflects the primary objective; mixed characteristics do not justify arbitrary split unless the adopted framework requires component treatment. Apply the judgement consistently. If the commercial component is significant and the non-cash generating component is insignificant in the arrangement as a whole, apply IPSAS 26. If it is unclear whether the primary objective is commercial return, the IPSAS 26 presumption is that the asset is non-cash generating and IPSAS 21 applies.
Has the purpose changed?	Review legal directives, restructuring decisions, commercialisation, closure or repurposing decisions.	Redesignate only where clear evidence supports the change.

3.4 Identifying Assets that may be Impaired

3.5 Annual review for indicators

At each reporting date, the entity assesses whether there is any indication that a cash-generating asset or cash-generating unit 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 cash-flow measurement exercise for every asset.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment annually, regardless of indicators. Where at least one impairment indicator exists, or where annual testing is required for a specific intangible asset, the entity estimates the recoverable amount and compares it with the carrying amount. This measurement exercise is the impairment test.

3.6 External indicators of impairment

Indicator	Public sector interpretation	Example evidence
Significant decline in market value	The asset's market value has fallen more than expected from normal use or passage of time.	Market price data, valuation report, reduced resale values for specialised equipment.
Adverse technological, market, economic or legal changes	External changes reduce expected cash inflows from the asset or unit.	New competitor, legal restriction, new technology, reduced demand for commercial services.

Indicator	Public sector interpretation	Example evidence
Increase in market interest rates or required returns	Higher discount rates reduce value in use and may reduce recoverable amount.	Central bank rates, market yields, cost of capital benchmarks.
Entity-level market evidence where relevant	For entities with market-based ownership indicators, market evidence suggests asset values may be impaired.	Public sector group with listed commercial subsidiary or market-observable valuation evidence.

3.7 Internal indicators of impairment

Indicator	Public sector interpretation	Example evidence
Obsolescence or physical damage	The asset is technologically obsolete, damaged or no longer capable of generating expected cash flows.	Engineering report, maintenance report, ICT replacement assessment.
Adverse change in use	The asset becomes idle, is planned for disposal earlier than expected, or operations are discontinued or restructured.	Board decision, ministerial directive, restructuring plan, closure plan.
Decision to halt construction	Construction of a cash-generating asset is stopped before completion or use.	Capital project cancellation, budget decision or contract termination.

Indicator	Public sector interpretation	Example evidence
Worse-than-expected economic performance	Internal reports show cash needs, actual or forecast cash flows or accumulated current or future deficit are significantly below expectations.	Management accounts, budget variance, cash flow forecast, performance report.

3.8 Annual testing of specific intangible assets

An intangible asset with an indefinite useful life or an intangible asset not yet available for use must be tested for impairment annually. An intangible asset with an indefinite useful life, an intangible asset not yet available for use and a cash-generating unit or group to which goodwill acquired in an acquisition has been allocated must be tested for impairment annually. The annual test can be performed at any time during the year if performed consistently each year. If the intangible asset was first recognised during the current reporting period, it should be tested before year-end.

4.0 Impairment Check and Impairment Test Process

Step	Action	Output
1	Compile the population of cash-generating assets and cash-generating units from the fixed asset register, project records and management reports.	Complete list of assets and CGUs to review.
2	Perform an impairment check for external and internal indicators at reporting date.	Documented conclusion on whether indicators exist.
3	Identify annual impairment tests required for indefinite-life intangible assets and intangible assets not yet available for use and cash generating units or groups to which acquired goodwill has been allocated.	Annual test schedule.
4	If an indicator exists or annual testing is required, determine recoverable amount.	Fair value less costs to sell, value in use, or both where required.
5	Compare carrying amount with recoverable amount.	Impairment loss if carrying amount exceeds recoverable amount.
6	For CGUs, allocate impairment loss to the cash-generating assets in the unit in accordance with IPSAS 26.	CGU allocation schedule and updated asset records.

Step	Action	Output
7	Recognise impairment loss, update asset register and revise future depreciation or amortisation.	Journal entry, updated carrying amount and revised depreciation schedule.

Impairment check versus impairment test

An impairment check is the annual review for indicators. An impairment test is the measurement exercise that determines recoverable amount and compares it with carrying amount. IPSAS 26 also requires annual testing for certain intangible assets regardless of indicators.

Measuring Recoverable Amount

4.1 Measurement principle

Recoverable amount is the higher of fair value less costs to sell and value in use. If one of these amounts exceeds the carrying amount, the asset is not impaired and the entity does not need to calculate the other amount. If there is no reason to believe value in use materially exceeds fair value less costs to sell, fair value less costs to sell may be used as recoverable amount.

Measure	Meaning	Practical evidence
Fair value less costs to sell	Amount obtainable from selling the asset in an orderly transaction less direct disposal costs.	Binding sale agreement, active market price, independent valuation, comparable transactions, disposal cost estimates.

Measure	Meaning	Practical evidence
Value in use	Present value of future cash flows expected from continuing use and ultimate disposal.	Cash flow forecasts, budgets, business plans, market assumptions, terminal value, discount rate support.

4.2 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 incremental costs of disposal. Where there is no binding agreement, an active market price is used where available. Where neither exists, fair value less costs to sell is estimated from the best available information, such as independent valuations and recent comparable transactions.

4.3 When recoverable amount is determined for a CGU

Recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets. Where independent cash inflows cannot be identified, the entity determines recoverable amount for the cash-generating unit to which the asset belongs.

5.0 Value in Use and Discounted Cash Flow Measurement

5.1 Basis for cash flow estimates

Value in use is estimated using future cash flows expected from continuing use of the asset and from its disposal at the end of its useful life. Estimates should be reasonable, supportable and based on management's best estimate of the economic conditions that will exist over the remaining useful life. Greater weight is given to external evidence where available.

Area	Application requirement
Budgets and forecasts	Use the most recent approved budgets or forecasts. Cash flow projections beyond the budget period should normally be extrapolated using a steady or declining growth rate unless a higher rate can be justified.
Forecast period	Detailed projections should be based on approved budgets and forecasts, commonly not exceeding five years unless a longer period is justified by the nature of the asset or project.
Current condition	Estimate cash flows for the asset in its current condition. Do not include cash flows from future restructurings or enhancements to which the entity is not yet committed.
Cash inflows and outflows	Include cash inflows from continuing use and directly attributable cash outflows necessary to generate those inflows, including cash flows from ultimate disposal.
Exclusions	Exclude financing cash flows, income tax cash flows, and cash flows from activities not directly attributable to the asset or CGU.
Foreign currency cash flows	Estimate in the currency in which they will occur, discount using an appropriate rate for that currency and translate at the reporting date spot rate.

5.2 Discount rate

The discount rate should be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which the cash flow estimates have not already been adjusted. The rate should not double count risks. If cash flows have already been adjusted for a specific risk, the discount rate should not include the same risk again.

Discount rate consideration	Practical application
Time value of money	Use market rates relevant to the currency and timing of cash flows.
Asset-specific risks	Reflect risks specific to the asset or CGU where not already included in cash flow estimates.
Consistency	Ensure the rate is consistent with nominal or real cash flows and with pre-tax or post-tax cash flow basis.
Documentation	Retain source data, management approval and sensitivity analysis for significant estimates.

5.3 Sensitivity analysis

For significant impairment tests, the entity should consider sensitivity analysis around key assumptions such as revenue growth, operating costs, utilisation, tariffs, terminal value and discount rate. Sensitivity analysis supports management review and helps identify whether a reasonably possible change in assumptions would cause impairment.

5.4 Identifying a cash-generating unit

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of other assets or groups of assets. CGUs are identified consistently from period to period unless a change is justified. The identification of a CGU should reflect how management monitors operations and how cash inflows are generated.

Assessment question	Guidance
Can the individual asset generate independent cash inflows?	If yes, test the individual asset. If no, identify the smallest group that generates independent cash inflows.
How does management monitor the operation?	Consider internal reporting, budgets, revenue targets and performance management.
Are assets interdependent?	Where assets must operate together to generate cash inflows, test them as a CGU.
Can the CGU be changed from prior year?	Only if justified by changes in operations, structure or cash inflow patterns. Disclose the change where material.

5.5 Carrying amount of a CGU

The carrying amount of a CGU includes the carrying amount of assets that can be attributed directly or allocated on a reasonable and consistent basis to the CGU and will generate the future cash inflows used in determining the CGU's value in use. Liabilities are included only where recoverable amount cannot be determined without considering them.

5.6 Non-cash-generating assets contributing service potential to a CGU

A non-cash-generating asset may contribute service potential to a cash-generating unit. In that case, the portion of its carrying amount that contributes to the CGU is allocated to the CGU before estimating recoverable amount. The non-cash-generating asset itself is assessed for impairment under IPSAS 21 before any allocation. Any impairment loss of the CGU is allocated to cash-generating assets in the CGU; it is not used to create an additional impairment loss on the non-cash-generating asset beyond the IPSAS 21 assessment.

5.7 Allocating impairment loss for a CGU

Where the recoverable amount of a CGU or group of CGUs is less than its carrying amount, an impairment loss is recognised. The loss is allocated to reduce the carrying amounts of the cash-generating assets in the unit on a pro rata basis based on their carrying amounts. An asset cannot be reduced below the highest of its fair value less costs to sell if determinable, value in use if determinable, and zero. The amount not allocated because of these floors is reallocated pro rata to the other cash-generating assets in the unit.

5.8Recognition and Measurement of Impairment Losses

5.9 Recognition rule

An impairment loss is recognised if, and only if the recoverable amount of a cash-generating asset is lower than its carrying amount. The asset is written down to recoverable amount, and the impairment loss is recognised immediately in surplus or deficit unless another Standard requires a different treatment.

Accounting event	Debit	Credit
Recognition of impairment loss on individual asset	Impairment loss - surplus or deficit	Accumulated impairment loss / asset account
Recognition of impairment loss on CGU	Impairment loss - surplus or deficit	Accumulated impairment loss / relevant cash-generating assets
If another Standard requires a liability	Relevant expense or asset account under that Standard	Provision or liability account

6.0 Impact on depreciation and amortisation

After an impairment loss is recognised, future depreciation or amortisation is recalculated so that the revised carrying amount, less any residual value, is allocated systematically over the remaining useful life of the assets.

6.1 Reversing Impairment Losses

6.2 Annual review for reversal indicators

At each reporting date, the entity assesses whether an impairment loss recognised in a prior period for an asset may no longer exist or may have decreased. Where a reversal indicator exists, recoverable amount is estimated. A reversal is recognised only when there has been a change in the estimates used to determine recoverable amount since the 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.

6.3 CGU reversals

A reversal of an impairment loss for a CGU is allocated to the cash-generating assets of the unit pro rata with their carrying amounts. The carrying amount of an asset after reversal cannot exceed the lower of its recoverable amount, if determinable, and the carrying amount that would have been determined if no impairment loss had been recognised. No part of the reversal is allocated to a non-cash-generating asset contributing service potential to the CGU.

Accounting event	Debit	Credit
Reversal of impairment loss on individual asset	Accumulated impairment loss / asset account	Reversal of impairment loss - surplus or deficit

Accounting event	Debit	Credit
Reversal of impairment loss on CGU	Accumulated impairment loss / relevant cash-generating assets	Reversal of impairment loss - surplus or deficit
Future depreciation after reversal	Depreciation expense	Accumulated depreciation, based on revised carrying amount and remaining useful life

6.3 Redesignation of Assets

A redesignation from cash-generating to non-cash-generating, or from non-cash-generating to cash-generating, occurs only when clear evidence supports the change. Redesignation is not based solely on one year of poor revenue performance or incidental income. The evidence should demonstrate a change in the primary objective for holding the asset.

Situation	Likely treatment
A commercial printing unit is closed and its equipment is repurposed for internal government service documents only.	Clear evidence may support redesignation from cash-generating to non-cash-generating, with IPSAS 21 applied prospectively.
A public conference centre previously used for government events is commercialised with market-based pricing and return targets.	Clear evidence may support redesignation from non-cash-generating to cash-generating, with IPSAS 26 applied prospectively.
A commercial asset makes a loss in the current year due to temporary market conditions but remains operated to earn a return.	The asset normally remains cash-generating. Poor performance may be an impairment indicator, but not redesignation by itself.

A redesignation does not itself trigger an impairment test or reversal. The entity considers the listed indicators applicable to the asset after redesignation at the subsequent reporting date.

6.5 Presentation and Disclosure

6.6 Presentation

Impairment losses and reversals are presented in surplus or deficit unless another IPSAS requires a different treatment. Impairment losses and reversals for revalued/ current value assets are treated as revaluation decreases or increase in accordance with IPSAS45 or IPSAS 31. The line item used should be clear and consistent, for example "impairment losses on cash-generating assets" or as part of "depreciation, amortisation and impairment" with adequate note disclosure. Where impairment losses are allocated across CGU assets, the asset register and note disclosures should reconcile to the general ledger and the impairment working paper.

6.7 Disclosure requirements

Disclosure area	Required information in applied terms
Classification criteria	Criteria developed to distinguish cash-generating assets from non-cash-generating assets.
By class of assets including revalued assets	Amount of impairment losses and reversals recognised during the period and the statement of financial performance line items affected; impairment losses and reversals on revalued assets recognized directly in revaluation surplus/reserve
Material individual impairment or reversal	Events and circumstances, amount, nature of asset, asset class, segment if applicable, whether recoverable amount is fair value less costs to sell or value in use, and key basis used.

Disclosure area	Required information in applied terms
CGU disclosures	Description of the CGU, impairment amount, basis for recoverable amount, key assumptions and changes in CGU composition where relevant.
Indefinite-life intangible assets in CGUs	Where relevant, disclose assumptions used to measure recoverable amount, including forecast period, growth rate, discount rate and sensitivity information where required by the adopted framework.
Aggregate immaterial items	Main classes of assets affected and main events and circumstances causing impairment losses or reversals.

6.8 Illustrative accounting policy note

Cash-generating assets are assets held primarily to generate a commercial return. At each reporting date, the entity assesses whether there is any indication that a cash-generating asset or cash-generating unit 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 recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is determined from the present value of estimated future cash flows expected from continuing use and ultimate disposal, discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in surplus or deficit when carrying amount exceeds recoverable amount. Reversals are recognised when evidence indicates that an impairment loss 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.

6.9 Illustrative disclosure note

Asset class / CGU	Impairment losses recognised	Reversals recognised	Recoverable amount basis	Main cause
Commercial plant and equipment	XXX	XXX	Value in use	Reduced projected cash flows.
Rental property assets	XXX	XXX	Fair value less costs to sell	Market decline and reduced occupancy.
Port services CGU	XXX	XXX	Value in use	Lower throughput and higher operating costs.
Intangible assets	XXX	XXX	Annual impairment test	Reduced expected commercial benefits.

7.0 Controls, Documentation and Year-End Procedures

A robust impairment process depends on coordination between finance, asset management, commercial operations, capital projects teams, valuation officers, programme managers and the officials responsible for approving budgets and forecasts. Cash-generating impairment tests require disciplined forecasting and governance because recoverable amount often depends on management estimates.

Control area	Minimum procedure	Evidence
Asset and CGU population	Identify cash-generating assets and CGUs and reconcile to general ledger and asset register.	CGU mapping and asset register reconciliation.
Classification	Document criteria and evidence supporting cash-generating classification.	Management judgement paper.
Indicator review	Perform annual impairment check using internal and external indicators.	Signed review template and supporting reports.
Forecast approval	Use approved budgets, forecasts and business plans for value in use.	Approved budgets, board or management approvals.
Assumptions	Document revenue, cost, growth, terminal value and discount rate assumptions.	Cash flow model and assumption file.
Sensitivity	Perform sensitivity analysis for significant tests.	Sensitivity schedule and management review.

Control area	Minimum procedure	Evidence
Journal processing	Post impairment and reversal entries with supporting allocation schedules.	Journal voucher and trial balance reconciliation.
Disclosure	Prepare note disclosures and reconcile to general ledger and impairment working papers.	Disclosure checklist and note support file.

7.1 Worked Examples

Example 1 - Individual commercial equipment asset

Area	Application
Facts	A government commercial laboratory holds specialised testing equipment to provide paid services to private companies at market rates. The equipment has a carrying amount of 1,500,000. Due to new technology, expected future cash flows have fallen. Fair value less costs to sell is 800,000. Value in use based on discounted cash flows is 950,000.
Accounting assessment	The equipment is cash-generating because it is held to earn commercial returns from paid testing services. Technological change is an impairment indicator. Recoverable amount is the higher of fair value less costs to sell and value in use, which is 950,000.

Illustrative calculation

Item	Amount / explanation
Carrying amount	1,500,000
Fair value less costs to sell	800,000
Value in use	950,000
Recoverable amount	950,000
Impairment loss	1,500,000 - 950,000 = 550,000

Illustrative accounting entry

Accounting event	Debit	Credit
Recognise impairment loss	Impairment loss - surplus or deficit 550,000	Accumulated impairment loss / equipment 550,000

Example 2 - Value in use using discounted cash flows

Area	Application
Facts	A public sector entity operates a paid parking facility as a commercial activity. The facility has a carrying amount of 5,000,000. Management prepares approved cash flow projections showing annual net cash inflows of 900,000 for five years and a disposal cash flow of 1,200,000 at the end of year five. The pre-tax discount rate is 10 percent. Fair value less costs to sell is 4,000,000.
Accounting assessment	The parking facility is cash-generating. Value in use is the present value of expected future cash flows. For illustration, the present value of the five annual cash flows at 10 percent is 3,412,000 and the present value of disposal proceeds is 745,000. Value in use is therefore 4,157,000, which is higher than fair value less costs to sell but below carrying amount.

Illustrative calculation

Item	Amount / explanation
Present value of annual net cash inflows	3,412,000
Present value of disposal proceeds	745,000
Value in use	4,157,000
Fair value less costs to sell	4,000,000

Item	Amount / explanation
Recoverable amount	4,156,000
Impairment loss	5,000,000 - 4,157,000 = 843,000

Illustrative accounting entry

Accounting event	Debit	Credit
Recognise impairment loss	Impairment loss - surplus or deficit 843,000	Accumulated impairment loss / parking facility 843,000

Example 3 - Cash-generating unit for a printing service

Area	Application
Facts	A government printing service sells printed materials to public entities and private clients at commercial rates. The printing machines, binding equipment and order management software do not generate independent cash inflows. Together they form the smallest group of assets generating independent cash inflows. The carrying amount of the CGU is 6,000,000 and recoverable amount is 4,800,000.
Accounting assessment	The assets are tested as a CGU because individual assets do not generate largely independent cash inflows. The CGU impairment loss is 1,200,000 and is allocated pro rata to the cash-generating assets in the unit, subject to not reducing any asset below its fair value less costs to sell, value in use if determinable, or zero.

Illustrative calculation

Item	Amount / explanation
CGU carrying amount	6,000,000
CGU recoverable amount	4,800,000
CGU impairment loss	1,200,000
Allocation method	Pro rata to cash-generating assets based on carrying amounts, subject to IPSAS 26 floors

Illustrative accounting entry

Accounting event	Debit	Credit
Recognise CGU impairment loss	Impairment loss - surplus or deficit 1,200,000	Accumulated impairment loss / CGU assets 1,200,000

Example 4 - Non-cash-generating asset supporting a CGU

Area	Application
Facts	A government-owned commercial training centre uses a central administrative building shared with a non-commercial ministry unit. A measurable portion of the building supports the commercial training CGU. The building is primarily a non-cash-generating asset and has already been assessed under IPSAS 21. A portion of its carrying amount is allocated to the CGU for impairment testing.

Area	Application
Accounting assessment	The non-cash-generating asset contributes service potential to the CGU. The allocated portion is included in the CGU carrying amount to determine whether the CGU is impaired. Any CGU impairment loss is allocated to cash-generating assets in the CGU and is not allocated back to the non-cash-generating building beyond any impairment determined under IPSAS 21.

Example 5 – Reversal of impairment for an individual asset

Area	Application
Facts	A commercial rental facility had an impairment loss in a prior year due to low occupancy. Current year occupancy improved following a new lease strategy. Carrying amount before reversal is 3,000,000. Recoverable amount is 3,900,000. If no impairment had been recognised, the carrying amount would have been 3,600,000.
Accounting assessment	The improved occupancy is a reversal indicator. The reversal is limited to the amount that restores the carrying amount to what it would have been had no impairment been recognised.

Illustrative calculation

Item	Amount / explanation
Recoverable amount	3,900,000
Carrying amount before reversal	3,000,000
Carrying amount if no impairment had been recognized	3,600,000
Maximum reversal	600,000

Illustrative accounting entry

Accounting event	Debit	Credit
Recognise reversal	Accumulated impairment loss / rental facility 600,000	Reversal of impairment loss - surplus or deficit 600,000

Example 6 - No impairment despite poor current year results

Area	Application
Facts	A commercial toll facility has a carrying amount of 12,000,000. Current year cash inflows fell because of temporary roadworks, but approved forecasts show recovery after reopening. Value in use is estimated at 13,500,000 and fair value less costs to sell is 11,000,000.
Accounting assessment	Poor current year performance is an indicator requiring a test. However, recoverable amount is 13,500,000, which exceeds carrying amount. No impairment loss is recognised. The impairment working paper should document the assumptions and evidence supporting forecast recovery.

Example 7 - Redesignation from cash-generating to non-cash-generating

Area	Application
Facts	A commercial effluent treatment plant was constructed to serve industrial clients at commercial rates. The industrial estate closes permanently and government repurposes the plant to support a social housing programme at no charge. Formal policy documentation supports the change.

Area	Application
Accounting assessment	Clear evidence exists that the primary objective has changed. The asset may be redesignated as non-cash-generating. Redesignation itself does not automatically create an impairment loss, but the entity assesses indicators under IPSAS 21 after redesignation.

Example 8- Revalued cash-generating PPE

Area	Application
Facts	A port authority carries a commercial crane at a current value/revalued amount of 10,000,000 under IPSAS 45. Recoverable amount under IPSAS 26 is 9,400,000 and a revaluation surplus for the relevant class exists.
Accounting assessment	the 600,000 impairment is within IPSAS 26 scope and is accounted for as a revaluation decrease under IPSAS 45 to the extent of the available revaluation surplus, with any excess in surplus or deficit.

Example 9- CGU containing acquired goodwill

Area	Application
Facts	A public sector combination gives rise to acquired goodwill of 500,000 allocated to a commercial services CGU. The CGU carrying amount, including goodwill, is 5,000,000 and recoverable amount is 4,200,000.

Accounting assessment	Recognise an impairment loss of 800,000; allocate 500,000 first to goodwill and the remaining 300,000 pro rata to other cash-generating assets, subject to IPSAS 26 floors. Do not reverse goodwill impairment in later periods.

Example 10 - Indefinite-life intangible asset in a commercial service CGU

Area	Application
Facts	A revenue-generating licensing platform has an indefinite useful life and is part of a commercial licensing CGU. The platform is not yet available for use at year-end. The carrying amount is 2,800,000.
Accounting assessment	The intangible asset must be tested annually and before year-end because it is not yet available for use. The test may be performed as part of the CGU assessment if the platform does not generate independent cash inflows.

7.2 Frequently Asked Questions

FAQ 1: Is an asset cash-generating because it charges a user fee?

Not automatically. The asset is cash-generating only when it is held primarily to generate a commercial return. Cost-recovery or incidental fees usually indicate a non-cash-generating asset.

FAQ 2: What is the difference between recoverable amount and recoverable service amount?

Recoverable amount under IPSAS 26 is based on the higher of fair value less costs to sell and value in use based on cash flows. Recoverable service amount under IPSAS 21 is based on the higher of fair value less costs to sell and value in use based on remaining service potential.

FAQ 3: When is a CGU used?

A CGU is used when an individual asset does not generate cash inflows that are largely independent of other assets. The smallest group generating independent cash inflows is tested.

FAQ 4: Can the discount rate be the government borrowing rate?

It may be a reference point, but it must be adjusted where necessary to reflect the time value of money and risks specific to the asset or CGU that are not already reflected in cash flows.

FAQ 5: Should future capital improvements be included in cash flows?

Cash flows should reflect the asset in its current condition. Future improvements or restructurings are included only where the entity is committed and the applicable recognition criteria are met.

FAQ 6: Can a CGU impairment loss reduce an asset below zero?

No. An asset cannot be reduced below the highest of its fair value less costs to sell if determinable, value in use if determinable, and zero.

FAQ 7: Can an impairment loss be reversed?

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

FAQ 8: How often should CGUs be reassessed?

At each reporting date, the entity reviews whether indicators exist and whether CGU identification remains appropriate. CGUs should be identified consistently unless a change is justified.

8.0 Implementation Checklist

Area	Checklist item	Responsible function
Scope	Identify assets within IPSAS 26 scope and exclude assets covered by other Standards.	Finance / Asset Management
Classification	Document criteria used to distinguish cash-generating assets from non-cash-generating assets.	Finance / Management
CGU mapping	Identify CGUs and document why individual assets do or do not generate independent cash inflows.	Finance / Operations
Asset register	Reconcile asset register to general ledger and confirm carrying amounts.	Finance / Asset Management
Indicators	Perform annual impairment check using internal and external indicators.	Finance / Operations
Annual intangible tests	Test indefinite-life intangible assets and intangible assets not yet available for use annually.	Finance / ICT / Valuation
Forecasts	Use approved budgets and forecasts for cash flow estimates.	Finance / Operations / Management
Discount rate	Support discount rate with market data and risk analysis.	Finance / Treasury / Valuation
Sensitivity	Perform sensitivity analysis for significant impairment tests.	Finance / Management
Recognition	Post impairment losses and reversals with approved journals and allocation schedules.	Finance

Area	Checklist item	Responsible function
Depreciation	Revise future depreciation or amortisation after impairment or reversal.	Finance / Asset Management
Disclosure	Prepare disclosures by class of asset, material impairment event and CGU where relevant.	Finance
Governance	Obtain management review and approval for significant judgments, forecasts and assumptions.	Management / Audit

8.1 Minimum impairment working paper file

a) asset or CGU identification, description, location and asset class;
b) basis for classification as cash-generating and criteria applied;
c) carrying amount before impairment review;
d) impairment indicators considered and conclusion;
e) basis for fair value less costs to sell where relevant;
f) cash flow model, approved budgets and forecast period;
g) growth rates, terminal values and discount rate support;
h) sensitivity analysis for significant tests;
i) CGU allocation schedule and impairment floors applied;
j) calculation of impairment loss or reversal;
k) revised depreciation or amortisation schedule;
l) journal voucher reference and disclosure note support;
m) management review and approval evidence.

9.0 References

a) IPSAS 26, Impairment of Cash-Generating Assets.

b) IPSAS 21, Impairment of Non-Cash-Generating Assets.

c) IPSAS 45, Property, Plant and Equipment.

d) IPSAS 31, Intangible Assets.

e) IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

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