Impairment of Assets Policy

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Related Legislation	*Nil*
Related Documents	*Nil*

Policy Version	Approval Date	Adopted/Approved
1	16/03/2011	Adopted Ordinary Meeting of Council

PURPOSE

The purpose of this policy is to provide a framework for the treatment of impaired non-current assets

POLICY

All non-current assets must be assessed for indicators of impairment in accordance with AASB 136 *Impairment of Assets.* Asset held at either cost or fair value are subject to the requirements of this Standard.

The requirements of AASB 136 apply subject to the provisions contained in AASB 1031 *Materiality.* In determining materiality, where assets are tested for impairment and the total change in the written down value for the class of assets or the total impact on depreciation for the class of assets is material, the impairment loss must be brought to account.

IMPAIRMENT

Impairment is the decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation.

In general, an asset is impaired when its recoverable amount is less than its carry amount. If an asset is impaired, it must be written down and an impairment loss recorded.

A review for impairment indicators should be performed and documented annually, however, for physical assets and most intangible assets, Council will only test an asset for impairment if there are indicators of impairment. Such indicators could be of a general nature, e.g. a prolonged period of drought, or more specific in nature such as a flood or sever storm.

INDICATORS OF IMPAIRMENT

Council will assess every year at reporting date whether there are any indicators that an asset may be impaired. Council is not required to make a formal estimate of recoverable amount of an asset if no indicators of impairment are identified.

Council will develop a standard work practice to ensure that any impairment indicators are identified and if an actual material impairment of an asset's value exists.
For intangible assets with an indefinite useful life or an intangible asset not yet available for use, Council will test for impairment annually, irrespective of whether there are any indicators of impairment, and whenever there is an indication that the intangible asset may be impaired.

The events or circumstances that may indicate that impairment of an asset will generally be significant and will often have prompted discussion by a management group or similar, or the media.

An indicator of impairment will not always lead to an impairment loss being recorded. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognised for the asset. Judgement must be used to determine whether it is more appropriate to record an impairment loss, or make other adjustments. Reasons for these decisions must be included in supporting documentation.

RECOVERABLE AMOUNT

Recoverable amount is determined as the higher of an asset's net selling price (fair value less costs to sell) and its value-in-use.

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

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

Where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows, value-in-use is the depreciated replacement cost of the asset. However, where the Council is not using an asset and has made a formal decision not to re-use or replace the impaired asset, the value-in-use would be the present value of net disposal proceeds.

RECORDING AN IMPAIRMENT LOSS

An impairment loss is recognised immediately in the Statement of Comprehensive Income, unless the asset is carried at a revalued amount. When an asset is measured at a revalued amount, the impairment loss is to be treated the same way as a revaluation decrement, i.e. offset against the asset revaluation reserve for the same class, to the extent available.

Following the recognition of an impairment loss, the depreciation/amortisation charge for the asset is to 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.

Any amount of reversal of an impairment loss that cannot be allocated to an individual asset due to the rule above is to be allocated pro rata to the other assets of the unit.

DISCLOSURE

Council will make the relevant disclosure in relation to impairment in accordance with AASB 136.

IMPAIRMENT DECISION MAKING

Flowchart 1 – Is An Asset Impaired?