Western Cape Government
Provincial Treasury

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Reference: T7/2/7

TREASURY CIRCULAR MUN NO. 56/2014

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THE PROVINCIAL AUDITOR

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THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

ACCOUNTING STANDARDS BOARD (ASB) - INVITATION TO COMMENT ON PROPOSED AMENDMENTS TO THE STANDARDS OF GRAP ON IMPAIRMENT OF NON-CASH GENERATING ASSETS AND IMPAIRMENT OF CASH-GENERATING ASSETS (ED 127)

1. PURPOSE

1.1 The purpose of this circular is to request municipalities and municipal entities to submit comments on the proposed amendments to the Standard of Generally Recognised Accounting Practice (GRAP) on ***Impairment of Non-Cash Generating Assets and Impairment of Cash Generating Assets (ED 127).***

This can be accessed via the following link http://www.asb.co.za**.**

2. BACKGROUND

2.1 The Accounting Standards Board issued the Exposure Draft on ***Improvements to Standards of GRAP (ED 112)*** in June 2013.

2.2 The proposed amendments were raised to **clarify the objective** of cash-generating and non-cash generating assets. Furthermore respondents could not distinguish between cash and non-cash generating assets. Thus the **amendments did not fully address all concerns**.

2.3 The Accounting Standards Board then sought to streamline and simplify GRAP 21 and GRAP 26 to address the concerns raised. As part of its research, the board **considered the following amendments:**

- **simplifying** the approach to impairment **to make it clearer** when an asset is cash-generating or non-cash-generating;
- **assessing the feasibility** of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of **combining the two Standards.**

3. OBJECTIVE

3.1 The objective of this Exposure Draft is to **obtain feedback** on proposed amendments, collate and submit commentary to the Accounting Standards Board.

4. REQUEST

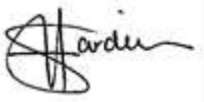
4.1 To submit comments on specific matters posed in **Annexure 1** attached.

4.2 Municipalities should also state the overall opinion on whether this exposure draft (ED127) is supported and to supplement this opinion with the detailed comments and specifying paragraphs to which it relates, explaining the issue and suggesting alternative wording.

4.3 Comments are invited by the ASB until 30 January 2015; however it will be appreciated if comments can be submitted to Provincial Treasury by **15 January 2015** to consolidate all comments for the Province.

4.4 All comments to be submitted to the individual as indicated in this circular.

4.5 Your co-operation is highly appreciated.



MR A HARDIEN
HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING
DATE: 20 November 2014

ANNEXURE 1

NAME OF THE MUNICIPALITY: ____

NO.	SPECIFIC MATTERS RAISED FOR COMMENT	RESPONSE	REF.
1.	Do you agree with the Board's view to retain the three measurement approaches when determining value in use for non-cash-generating assets?		
2.	Do you agree with the Board's view that there is merit in retaining two separate Standards? Please give reasons for your view.		
3.	If in your view the Standards should be combined into a single Standard, would it be appropriate to have one set of indicators for impairment or two sets of indicators for the impairment of cash-generating and non-cash-generating assets? Please give reasons for your view.		
GENERAL MATTERS FOR COMMENT: As with any other Exposure Draft, comment on any other matter contained in this document would be welcomed.			

Responses due by 30 January 2015

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON PROPOSED AMENDMENTS TO THE STANDARDS OF GRAP ON

IMPAIRMENT OF NON-CASH-GENERATING ASSETS AND IMPAIRMENT OF CASH-GENERATING ASSETS

(ED 127)

Issued by the
Accounting Standards Board

October 2014

ED 127

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of *Proposed Amendments to the Standards of GRAP on Impairment of Non-cash-generating Assets* and *Impairment of Cash-generating Assets* (ED 127) to enable the Board to amend the Standards of GRAP outlined in this document.

The proposals in this Exposure Draft may be modified in the final documents in the light of comment received, before being issued as amendments to the Standards of GRAP.

Comment should be submitted in writing so as to be received by **30 January 2015**. E-mail responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the affected Standards of GRAP have been issued. Comment should be addressed to:

The Chief Executive Officer

Accounting Standards Board

P O Box 74219

Lynnwood Ridge

0040

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Introduction

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

(a) departments (including national and provincial and government components);

(b) public entities;

(c) trading entities (as defined in the PFMA);

(d) constitutional institutions;

(e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and

(f) Parliament and the provincial legislatures.

The above are collectively referred to as %entities+.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

(a) government business enterprises (as defined in the PFMA);

(b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and

(c) entities under the ownership control of any of these entities.

The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations of the Standards of GRAP.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions,

as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Background and purpose of this Exposure Draft

The Board issued the Exposure Draft on *Improvements to Standards of GRAP (2013)* (ED 112) in June 2013. ED 112 proposed amendments to the Standards of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) and *Impairment of Cash-generating Assets* (GRAP 26) to clarify the objective of cash-generating and non-cash-generating assets.

The need for further clarification was raised by respondents who indicated that the distinction between cash-generating and non-cash-generating assets has proved problematic at a local government level, as municipalities charge fees for the services they provide. Even after the amendments in ED 112, constituents indicated that the proposals did not fully address their concerns. The Board concluded that, in addition to the proposals made in ED 112, a more holistic review of GRAP 21 and GRAP 26 was required.

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash-generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Simplifying the approach to impairment to make it clearer when an asset is cash-generating or non-cash-generating

The Board considered how it could respond to the issues identified by respondents relating to the practical difficulties of identifying when an entity generates a commercial return in the public sector. It was noted that there are varying interpretations of what constitutes a commercial return and some practitioners hold the view that the primary objective of generating a commercial return contradicted the service delivery objective of the public sector.

The Board concluded that it was necessary to develop a simplified approach. In the proposed approach, the classification of assets between cash-generating and non-cash-generating moves away from assessing whether an asset is used with the objective of generating a commercial return. Instead, the classification is based on a measurement basis that best reflects an entity's objective to use the asset.

Assessing the feasibility of one measurement approach for non-cash-generating assets

Currently, GRAP 21 provides entities with a choice when selecting the appropriate measurement basis for determining value in use. As one of the Board's objectives is to

simplify the Standards by eliminating measurement alternatives, the Board considered eliminating the restoration cost approach and service units approach when determining value in use for non-cash-generating assets.

Assessing the feasibility of combining the two Standards

Lastly, the Board considered the practicality of combining the requirements of GRAP 21 and GRAP 26 into a single Standard. Although, there are similarities between the two Standards, the Board established that there is merit in retaining two separate Standards. Although most assets in the public sector are not cash-generating, the Board noted that there are entities in the public sector that use their assets as cash-generating assets. The Board also noted that there are entities that exist to deliver services and also undertake business activities, for example GBEs, and it may be problematic to develop a Standard that reflects both uses of assets.

Other amendments

As the research project coincided with the Board's post-implementation review, the Board also considered the results of that project in proposing amendments to GRAP 21 and GRAP 26. From the post-implementation review, it was noted that assets have been impaired for minor damages which have no significant impact on the value or service potential of an asset and could be rectified through repairs and maintenance. An amendment has been proposed to clarify that assets are impaired when the impairment reflects a permanent or significant decline in the value or service potential of the asset.

The Exposure Draft comprises marked-up text of the affected paragraphs in each Standard of GRAP where amendments are proposed. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Other matters

Transitional provisions

The transitional provisions will be revised in GRAP 21 and GRAP 26 under the section 'Amendments to the Standards of GRAP' to prescribe the transitional arrangements for amendments made to these Standards of GRAP.

Due process and timetable

The due process followed by the Board in developing Standards of GRAP is for the Board to receive comment on the proposals set out in the Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, all interested parties are invited to provide comment.

Exposure Drafts will usually have a comment period of three (3) months, although shorter or longer periods may be used for certain Exposure Drafts depending on the urgency to issue the final Standard. Upon the closure of the comment period, the Board

will consider the comment received on this Exposure Draft and may modify the proposed amendments in the Standards of GRAP in the light of the comment received.

Request for comment

Comment is invited by **30 January 2015** on this Exposure Draft. The Board requires that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and supplement this opinion with detailed comment, whether supportive or critical, on the principles in the Exposure Draft. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasons, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

The Board would particularly appreciate answers from respondents to the questions posed below.

Specific matters for comment

Part of the Board's considerations in the review project was assessing the feasibility of one measurement approach for non-cash-generating assets and combining the two Standards into a single Standard.

Feasibility of one measurement approach for non-cash-generating assets

The Board considered eliminating the measurement alternatives to determining value in use for non-cash-generating assets as part of the Board's overall objective to simplify the Standards of GRAP. Although the Board acknowledged that the depreciated replacement cost approach is mostly applied by entities, the Board also noted that the applicability of the three measurement approaches depends on the nature of the impairment and availability of data. As a result the Board retained the restoration cost approach and service units approach.

Specific matter for comment 1:

Do you agree with the Board's view to retain the three measurement approaches when determining value in use for non-cash-generating assets?

Feasibility of combining the two Standards

The Board had two concerns with combining the Standards. Firstly, it is easier to work with a single Standard on non-cash-generating assets if those are the only assets held by an entity. The same applied when an entity only has cash-generating assets. Combining the two Standards into a single document would make the document unnecessarily long.

Secondly, although there are similarities in the two Standards, developing a single impairment model for cash-generating assets and non-cash-generating assets would

result in an approach that deviates from international practice. The Board has not identified a South-African specific reason to motivate such a change.

Even though the proposed simplified approach presumes that the default position for entities in the public sector is to operate their assets as non-cash-generating assets, the Board believes that there is still merit in retaining two separate Standards.

Specific matter for comment 2:

Do you agree with the Board's view that there is merit in retaining two separate Standards? Please give reasons for your view.

Specific matter for comment 3:

If in your view the Standards should be combined into a single Standard, would it be appropriate to have one set of indicators for impairment or two sets of indicators for the impairment of cash-generating and non-cash-generating assets? Please give reasons for your view.

General matters for comment

As with any other Exposure Draft, comment on any other matter contained in this Exposure Draft would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.

ED 127

PROPOSED AMENDMENTS TO THE STANDARDS OF GRAP

ON

IMPAIRMENT OF NON-CASH-GENERATING ASSETS

AND

IMPAIRMENT OF CASH-GENERATING ASSETS

Accounting Standards Board

ED 127

Amendments to the Standard of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21)

Summary of changes

The changes to the Standard of GRAP on *Impairment of Non-cash-generating Assets* are outlined below:

General definitions

- The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets

- Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired

- Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss

- An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.
- Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures

- The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

Accounting Standards Board

ED 127

Amendments to the Standard of GRAP on *Impairment of Non-cash-generating Assets*

Amended text is shown with new text underlined, deleted text struck through and text that has been relocated is indicated with a double underline. The following paragraphs in GRAP 21 have been amended:

Scope

.03 Entities that ~~manage~~ use cash-generating assets as defined in paragraph .09 shall apply the Standard of GRAP on Impairment of Cash-generating Assets to such assets. Entities that ~~manage~~ use non-cash-generating assets shall apply the requirements of this Standard to non-cash-generating assets.

Definitions

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

Cash-generating assets are assets ~~managed~~ used with the objective of generating ~~a commercial return~~ positive cash inflows that are expected to be significantly higher than the cost of replacing the remaining service potential of the asset.

…

Cash-generating assets and non-cash-generating assets

.09A Assets are classified as cash-generating or non-cash-generating by reference to the most relevant measurement basis to determine value in use of an asset to the entity. This classification is based on an entity's objective for using its asset.

.09B Value in use reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. The depreciated replacement cost is the most relevant measurement basis to determine value in use for entities that use assets with the objective to deliver services in the public sector. This is because, if an entity loses an asset, that entity will incur a cost equivalent to the cost of replacing the remaining service potential of the lost asset.

.09C When an entity's objective in using its assets is to generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost, then the value in use is determined by reference to those higher cash inflows. In such cases, the assets are cash-generating and the provisions of the Standard of GRAP on *Impairment of Cash-generating Assets* apply rather than this Standard. Value in use for cash-generating assets is determined by estimating future cash inflows and outflows that the entity expects to derive from

the assets, and applying the appropriate discount rate to those future cash flows, in accordance with the Standard of GRAP on *Impairment of Cash-generating Assets*.

.10 Assets held in the public sector are generally used with the objective of delivering services. Even though most entities normally have service delivery as their objective, ~~management can exercise discretion to acquire and manage assets to generate a commercial return~~ some assets may generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost. ~~Some assets may be managed solely as non-cash-generating assets, while others may be managed as cash-generating assets that generate a commercial return~~. However, given the overall objectives of most entities, the presumption is that assets are held with the objective of delivering services and value in use is determined as the depreciated replacement cost unless an entity can prove that it expects to generate positive cash inflows that are significantly higher than the depreciated replacement cost. Unless stated otherwise, references to %an asset+ or %assets+ in the following paragraphs of this Standard are references to %non-cash-generating asset(s)+.

~~.11 Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Managing an asset to generate a %commercial return+ indicates that an entity intends to generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in managing the asset. An asset may be managed with the objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to %an asset+ or %assets+ in the following paragraphs of this Standard are references to %non-cash-generating asset(s)+.~~

.12 ~~There are a number of circumstances in which entities may manage assets with the objective of generating a commercial return, although the majority of assets are not managed for that purpose. For example, a hospital may deploy a building for fee-paying patients.~~ An entity should assess, at an asset or cash-generating unit level, the extent to which it uses its assets in its various activities with the objective to generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost from its various activities. As the classification of an entityqs assets is undertaken at an asset or cash-generating unit level and not at an entity level, it is possible for ~~C~~cash-generating assets of an entity ~~may~~ to be ~~operate~~ used independently of the non-cash-generating assets of the entity.

.~~13 In certain instances, an asset may generate cash flows although it is managed for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets~~.

.14 ~~In other instances, a~~An entity may use an asset in a way that it ~~may~~ generates positive cash inflows that are expected to be significantly higher than the depreciated replacement cost and is also ~~be managed~~ used for non-cash-generating purposes. For example, a municipality may use a network of assets to provide free basic services to indigent households and also charge a fee based on cost plus a specific return to non-indigent households. If the objective of using the asset is to generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost, an entity applies the Standard of GRAP on *Impairment of Cash-generating Assets* rather than this Standard. ~~For example, a public hospital has ten wards, nine of which are managed for fee paying patients on a commercial basis, and the other is managed for non-fee paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is managed with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or the Standard of GRAP on *Impairment of Cash-generating Assets*. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies the Standard of GRAP *on Impairment of Cash-generating Assets* rather than this Standard.~~

.~~15 In some cases, it may not be clear whether the objective of managing an asset is to generate a commercial return. In such cases, it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash inflows is so significant that this Standard is applicable rather than the Standard of GRAP on *Impairment of Cash-generating Assets*. Judgement is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of cash-generating assets and non-cash-generating assets and with the related guidance in paragraphs .10 to .14. Paragraph .73 requires an entity to disclose the criteria used in making this judgement. However, given the overall objectives of most entities, the presumption is that assets are non-cash-generating and, therefore, this Standard will apply.~~

.15A The classification of an asset as non-cash-generating or cash-generating considers an entity's objective for using the asset when determining the most

relevant measurement basis. As such, this Standard does not require an entity to perform calculations of the depreciated replacement cost or expected positive cash inflows annually to determine its most relevant measurement basis to determine value in use of an asset to an entity.

.15B An asset may be used with the objective of generating positive cash inflows that are expected to be significantly higher than the depreciated replacement cost even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be generating positive cash inflows that are expected to be significantly higher than the depreciated replacement cost during a particular reporting period. The classification of an asset will not change between reporting periods solely on the basis that managementqs objectives for the asset were not met.

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Identifying an asset that may be impaired

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

External sources of information

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

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

Internal sources of information

(c) Evidence is available of obsolescence or physical damage of an asset.

(d) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite.

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

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

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

.24 The list in paragraph .22 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset’s recoverable service amount. For example, any of the following may be an indication of impairment:

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

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

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

.25A Physical damage would trigger an impairment test when it results in a permanent or significant decline in the service potential of the asset. Judgement is needed to determine whether the decline is permanent or significant. Such judgements may be based on the relative costs of providing the service before and after the decline, the percentage decline in service potential or other considerations. The decline in service potential is expected to be permanent when management has no reasonable expectation that the lost service potential will be replaced or restored. In certain circumstances evidence may be available to demonstrate that

the impairment will be temporary. In such circumstances, management considers whether the decline in service potential will be significant.

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Value in use

.41 This Standard defines the value in use of a non-cash-generating asset as the present value of the assetφs remaining service potential. %Value in use+ in this Standard refers to %value in use of a non-cash-generating asset+ unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs .42 to .46, as appropriate.

Depreciated replacement cost approach

.42 Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the assetφs gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

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Restoration cost approach

.45 Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower. Paragraphs .42 to .44 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service units approach

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

asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Application of approaches

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

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

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

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

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Reversing an impairment loss

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

External sources of information

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

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

Internal sources of information

(bA) Evidence is available that indicates that the service potential of the asset has been restored following physical damage to the asset.

(c) Significant long-term changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is

used or is expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance, restructure the operation to which the asset belongs or a decision to use rather than dispose of an asset.

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

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

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Disclosure

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~~*.73 **An entity shall disclose the criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets.***~~

…

Transitional provisions

Initial adoption of the Standards of GRAP

.81 ***The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.***

Amendments to Standards of GRAP

.82 ***Paragraphs .11, .12, .13, .14, .15, .18, .22, .23, .33, .77 and .78 were amended and paragraph .10 was added by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply these amendments prospectively for annual financial periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.82A ***Paragraphs .03, .09, .10, .12, .14, .41, .42 and .58 were amended, paragraphs .11, .13, .15, .46, .47 and .73 were deleted and paragraphs .09A, .09B, .09C, .15A, .15B and 25A . were added by the Amendments to the Standards of GRAP issued on [Day Month Year]. An entity shall apply these amendments prospectively for annual financial periods beginning on or after [Day Month Year]. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.82B Where the application of the amendments in paragraph .82A result in the redesignation of existing assets from cash-generating asset to non-cash-generating asset or from non-cash-generating asset to a cash-generating asset, an entity shall assess whether that redesignation triggers an impairment test or a reversal of an impairment loss.

Effective date

Initial adoption of the Standards of GRAP

.83 An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Entities already applying Standards of GRAP

.84 An entity shall apply amendments to this Standard of GRAP for annual financial statements covering periods beginning on or after [Day Month Year]. Earlier application is encouraged. If an entity applies these amendments for a period beginning before [Day Month Year], it shall disclose that fact.

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain solutions related to the accounting for impairment of non-cash-generating assets. This basis for conclusions accompanies, but is not part of, the Standard of GRAP on Impairment of Non-cash-generating Assets (GRAP 21).

Introduction

BC1. This Standard of GRAP prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and establishes how the impairment is recognised and measured. This Standard is primarily drawn from the International Public Sector Accounting Standard on *Impairment of Non-cash-generating Assets* (IPSAS 21). In developing this Standard, the Board also considered pronouncements issued by other standard setting bodies dealing with the accounting for impairment of assets.

BC2. This basis for conclusions summarises the significant departures that are made from IPSAS 21 and the reasons for such departures.

Scope

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Distinguishing between cash-generating assets and non-cash-generating assets

BC3. In responding to the concerns raised by many respondents in its Improvements Project for 2013, the Board considered how it can simplify and streamline the principles relating to the distinction between cash-generating and non-cash-generating assets.

BC4. The issues identified by respondents related to applying the concept of generating a commercial return in the public sector. There have been varying interpretations of what constitutes a commercial return and some hold the view that the primary objective of deploying most assets in the public sector cannot be to generate a commercial return as the primary objective is service delivery.

BC5. The Board noted that to adequately address the concerns raised, the classification of cash-generating and non-cash-generating should move away from an assessment of whether an asset is managed with the objective of generating a commercial return. The Board concluded that the classification should be based on a measurement basis that best reflects an entity's objective for using the asset.

BC6. The Board studied the deprival value model, which is applied mostly in Australia, United Kingdom and New Zealand to select a current measurement basis when

preparing financial statements. The model is premised on the fact that if an entity has an asset, an entity should measure that asset at the value it would be deprived of if the entity lost that asset, which is its replacement cost. The model also notes that the value the entity is deprived of would be based on what the entity could replace the asset with, but also considers that an entity owns that asset and can therefore operate the asset in a certain manner. The Board adopted the thinking behind this model as a basis to determine the best measurement basis for determining value in use in the public sector.

BC7. The Board concluded that the depreciated replacement cost is the most relevant measurement basis to determine value in use for public sector entities that operate to deliver services. This is because when an entity is deprived of an asset, the entity will incur a cost equivalent to the depreciated replacement cost to obtain the equivalent remaining service potential and economic benefits (including the net amount that would be received on disposal of the asset). As a result, the value of the asset to an entity cannot be higher than its depreciated replacement cost when it is used with the objective to deliver services. However, when the asset is used with the objective of generating cash inflows that are expected to be significantly higher than the depreciated replacement cost, then the asset is a cash-generating asset and the most relevant measure of value in use is the discounted cash flows.

BC8. The Board believed that adopting this approach for classifying assets as either cash-generating or non-cash-generating would require less judgement and is suitable as entity-specific criteria can be subjective. Previously, the classification required management to apply judgement when assessing whether an entity is generating a commercial return and this proved to be problematic. In the simplified approach the Board has substituted the idea of generating a commercial return with an entity's use of its assets with the objective of generating positive cash inflows that are expected to be significantly higher than the cost of replacing the asset.

BC9. The Board concluded that in applying the requirements of this Standard, it would not require entities to perform calculations of the most relevant measurement basis annually. The Board's view is that an entity would have had a clear objective of how it will use its assets and made certain calculations in setting its tariffs and understanding the basis of its cost structure, in order to reach the conclusion that its objective is to use its assets to generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost.

Permanent or significant decline in service potential

BC10. One of the findings from the Board's post-implementation review project was that assets are being impaired for minor damages that could be rectified through repairs and maintenance. The Board concluded that it is necessary to clarify that

the intention of the impairment Standards is to reflect those damages that have a permanent or significant impact on the value or service potential of an asset.

Comparison with the International Public Sector Accounting Standard on *Impairment of Non-Cash-Generating Assets* (February 2007)

The Standard of GRAP on *Impairment of Non-cash-generating Assets* is drawn primarily from the International Public Sector Accounting Standard on *Impairment of Non-Cash-Generating Assets* (IPSAS 21). The main differences between this Standard and IPSAS 21 are as follows:

- The definition of cash-generating assets in this Standard is different from IPSAS 21.
- This Standard uses different terminology, in certain instances, from IPSAS 21. The most significant example is the use of the term %net assets+ in this Standard. The equivalent term in IPSAS 21 is %net assets/equity+.
- The scope of the Standard of GRAP is different in that biological assets related to agricultural activities that are measured at fair value less costs to sell are excluded from the scope of this Standard. IPSAS 21 has no such scope exclusions.
- Non-cash generating property, plant and equipment that is measured at revalued amounts, and intangible assets that are measured at revalued amounts have not been scoped out of this Standard. Additional guidance on the treatment of impairment losses for assets measured at revalued amounts, and additional disclosures relating to such assets, were also included in this Standard. Assets measured at revaluated amounts are scoped out from IPSAS 21. Accordingly, guidance on the treatment of impairment losses related to such assets is also not included in IPSAS 21.
- The basis for classifying assets as non-cash-generating or cash-generating assets is based on the measurement basis that best reflects the objective by which the asset will be used, instead of defining what constitutes a primary objective of generating a commercial return.
- IPSAS 21 does not clarify that an impairment arising from physical damage must be permanent or significant.
- This Standard includes an indicator for the reversal of an impairment relating to the restoration of service potential of an asset following physical damage to the asset.
- IPSAS 21 requires the disclosure of criteria developed to distinguish non-cash-generating assets from cash-generating assets.
- Transitional provisions to this Standard of GRAP are dealt with differently than in IPSAS 21.
- A flow chart is included as an appendix to assist entities in assessing whether a non-cash-generating asset is impaired and to determine the recoverable service amount when one of the impairment indicators have been triggered.

- The appendices with illustrative examples on indications of impairment and measurement of impairment loss have been deleted from this Standard.

Accounting Standards Board

Amendments to the Standard of GRAP on *Impairment of Cash-generating Assets* (GRAP 26)

Summary of changes

The changes to the Standard of GRAP on *Impairment of Cash-generating Assets* are outlined below:

General definitions

- The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets

- Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures

- The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

Amendments to the Standard of GRAP on *Impairment of Cash-generating Assets*

Amended text is shown with new text underlined, deleted text struck through and text that has been relocated is indicated with a double underline. The following paragraphs in GRAP 26 have been amended:

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Scope

.03 ***Entities that ~~manage~~ use non-cash-generating assets as defined in paragraph .10 shall apply the Standard of GRAP on Impairment of Non-cash-generating Assets to such assets. Entities that ~~manage~~ use cash-generating assets shall apply the requirements of this Standard to cash-generating assets.***

Definitions

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

Cash-generating assets are assets ~~managed~~ used with the objective of generating ~~a commercial return~~ positive cash inflows that are expected to be significantly higher than the cost of replacing the remaining service potential of the asset.

A cash-generating unit is the smallest identifiable group of assets ~~managed~~ used with the objective of generating ~~a commercial return generates~~ positive cash inflows from continuing use that are expected to be significantly higher than the cost of replacing the remaining service potential of the asset and that are largely independent of the cash inflows from other assets or groups of assets.

…

Cash-generating assets and non-cash-generating assets

.10A Assets are classified as cash-generating or non-cash-generating by reference to the most relevant measurement basis to determine value in use of an asset to the entity. This classification is based on an entityqs objectives for using its assets.

.10B Value in use reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. The depreciated replacement cost is the most relevant measurement basis to determine value in use for entities that use assets with the objective to deliver services in the public sector. This is because, if an entity loses an asset, that entity will incur a cost

equivalent to the cost of replacing the remaining service potential of the lost asset.

.10C When an entity's objective in using its assets is to generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost, then the value in use is determined by reference to those higher cash inflows. In such cases, the assets are cash-generating and the provisions of this Standard apply rather than the Standard of GRAP on *Impairment of Non-cash-generating Assets*. Value in use for cash-generating assets is determined by estimating future cash inflows and outflows that the entity expects to derive from the assets, and applying the appropriate discount rate to those future cash flows, in accordance with this Standard.

.11 Assets held in the public sector are generally used with the objective of delivering services. Even though most entities normally have service delivery as their objective, ~~management can exercise discretion to acquire and manage assets to generate a commercial return~~ some assets may generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost. ~~Some assets may be managed solely as non-cash-generating assets, while others may be managed as cash-generating assets that generate a commercial return~~. However, given the overall objectives of most entities, the presumption is that assets are held with the objective of delivering services and value in use is determined as the depreciated replacement cost unless an entity can prove that it expects to generate positive cash inflows that are significantly higher than the depreciated replacement cost. Unless stated otherwise, references to "an asset" or "assets" in the following paragraphs of this Standard are references to "cash-generating asset(s)".

~~.12~~ ~~Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Managing an asset to generate a "commercial return" indicates that an entity intends to generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in managing the asset. An asset may be managed with the objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period.Unless stated otherwise, references to "an asset" or "assets" in the following paragraphs of this Standard are references to "cash-generating asset(s)".~~

.13 ~~There are a number of circumstances in which entities may manage assets with the objective of generating a commercial return, although the majority of assets are not managed for that purpose. For example, a hospital may deploy a building for fee-paying patients.~~ An entity should assess, at an asset or cash-generating

unit level, the extent to which it uses its assets in its various activities with the objective to generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost from its various activities. As the classification of an entity's assets is undertaken at an asset or cash-generating unit level and not at an entity level, it is possible for ~~C~~cash-generating assets of an entity ~~may~~ to be ~~operate~~ used independently of the non-cash-generating assets of the entity.

~~.14 In certain instances, an asset may generate cash flows although it is managed for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.~~

.15 ~~In other instances, a~~An entity may use an asset in a way that it ~~may~~ generates positive cash inflows that are expected to be significantly higher than the depreciated replacement cost and is also ~~be managed~~ used for non-cash-generating purposes. For example, a municipality may use a network of assets to provide free basic services to indigent households and also charge a fee based on cost plus a specific return to non-indigent households. If the objective of using the asset is to generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost, an entity applies this rather than the Standard of GRAP on *Impairment of Non-cash-generating Assets*. ~~For example, a public hospital has ten wards, nine of which are managed for fee paying patients on a commercial basis, and the other is managed for non-fee paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is managed with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or the Standard of GRAP on *Impairment of Non-cash-generating Assets*. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies this Standard rather than the Standard of GRAP on *Impairment of Non-cash-generating Assets*.~~

~~.16 In some cases, it may not be clear whether the objective of managing an asset is to generate a commercial return. In such cases, it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable, rather than the Standard of GRAP on *Impairment of Non-cash-generating Assets*. Judgement is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of cash-generating assets and non-cash-~~

~~generating assets and with the related guidance in paragraphs .11 to .15. Paragraph .116 requires an entity to disclose the criteria used in making this judgement. However, given the overall objectives of most entities, the presumption is that assets are non-cash-generating in these circumstances and, therefore, the Standard of GRAP on *Impairment of Non-cash-generating Assets* will apply.~~

.16A The classification of an asset as non-cash-generating or cash-generating considers an entity's objective for using the asset when determining the most relevant measurement basis. As such, this Standard does not require an entity to perform calculations of the depreciated replacement cost or expected positive cash inflows annually to determine its most relevant measurement basis to determine value in use of an asset to an entity.

.16B An asset may be used with the objective of generating positive cash inflows that are expected to be significantly higher than the depreciated replacement cost even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be generating positive cash inflows that are expected to be significantly higher than the depreciated replacement cost during a particular reporting period. The classification of an asset will not change between reporting periods solely on the basis that management's objectives for the asset were not met.

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Disclosure

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~~***.116 An entity shall disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.***~~

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Transitional provisions

Initial adoption of the Standards of GRAP

.127 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to Standards of GRAP

.128 Paragraphs .10, .12, .13, .14, .15, .16, .23, .26, .28, .80 .100 and .120 were amended and paragraph .11 was added by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply these amendments prospectively for annual periods beginning on or after 1 April

2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.128A ***Paragraphs .03, .10, .11, .13 and .15 were amended, paragraphs .12, .14, .16 and .116 were deleted and paragraphs .10A, .10B, .10C, .16A and .16B were added by the Amendments to the Standards of GRAP issued on [Day Month Year]. An entity shall apply these amendments prospectively for annual financial periods beginning on or after [Day Month Year]. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.128B ***Where the application of the amendments in paragraph .128A result in the redesignation of existing assets from cash-generating asset to non-cash-generating asset or from non-cash-generating asset to a cash-generating asset, an entity shall assess whether that redesignation triggers an impairment test or a reversal of an impairment loss.***

Effective date

Initial adoption of the Standards of GRAP

.129 ***An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

Entities already applying Standards of GRAP

.130 ***An entity shall apply amendments to this Standard of GRAP for annual financial statements covering periods beginning on or after [Day Month Year]. Earlier application is encouraged. If an entity applies these amendments for a period beginning before [Day Month Year], it shall disclose that fact.***

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain solutions related to the accounting for impairment of cash-generating assets. This basis for conclusions accompanies, but is not part of, the Standard of GRAP on Impairment of Cash-generating Assets (GRAP 26).

Introduction

BC1. This Standard of GRAP prescribes the procedures that an entity applies to determine whether a cash-generating asset is impaired and establishes how the impairment is recognised and measured. This Standard is primarily drawn from the International Public Sector Accounting Standard on *Impairment of Cash-generating Assets* (IPSAS 26). In developing this Standard, the Board also considered pronouncements issued by other standard setting bodies dealing with the accounting for impairment of assets.

BC2. This basis for conclusions summarises the significant departures that are made from IPSAS 26 and the reasons for such departures.

Scope

...

Distinguishing between cash-generating assets and non-cash-generating assets

BC14. In responding to the concerns raised by many respondents in its Improvements Project for 2013, the Board considered how it can simplify and streamline the principles relating to the distinction between cash-generating and non-cash-generating assets.

BC15. The issues identified by respondents related to applying the concept of generating a commercial return in the public sector. There have been varying interpretations of what constitutes a commercial return and some hold the view that the primary objective of deploying most assets in the public sector cannot be to generate a commercial return as the primary objective is service delivery.

BC16. The Board noted that to adequately address the concerns raised, the classification of cash-generating and non-cash-generating should move away from an assessment of whether an asset is managed with the objective of generating a commercial return. The Board concluded that the classification should be based on a measurement basis that best reflects an entity's objective for using the asset.

BC17. The Board studied the deprival value model, which is applied mostly in Australia, United Kingdom and New Zealand to select a current measurement basis when preparing financial statements. The model is premised on the fact that if an entity

has an asset, an entity should measure that asset at the value it would be deprived of if the entity lost that asset, which is its replacement cost. The model also notes that the value the entity is deprived of would be based on what the entity could replace the asset with, but also considers that an entity owns that asset and can therefore operate the asset in a certain manner. The Board adopted the thinking behind this model as a basis to determine the best measurement basis for determining value in use in the public sector.

BC18. The Board concluded that the depreciated replacement cost is the most relevant measurement basis to determine value in use for public sector entities that operate to deliver services. This is because when an entity is deprived of an asset, the entity will incur a cost equivalent to the depreciated replacement cost to obtain the equivalent remaining service potential and economic benefits (including the net amount that would be received on disposal of the asset). As a result, the value of the asset to an entity cannot be higher than its depreciated replacement cost when it is used with the objective to deliver services. However, when the asset is used with the objective of generating cash inflows that are expected to be significantly higher than the depreciated replacement cost, then the asset is a cash-generating asset and the most relevant measure of value in use is the discounted cash flows.

BC19. The Board believed that adopting this approach for classifying assets as either cash-generating or non-cash-generating would require less judgement and is suitable as entity-specific criteria can be subjective. Previously, the classification required management to apply judgement when assessing whether an entity is generating a commercial return and this proved to be problematic. In the simplified approach the Board has substituted the idea of generating a commercial return with an entity's use of its assets with the objective of generating positive cash inflows that are expected to be significantly higher than the cost of replacing the asset.

BC20. The Board concluded that in applying the requirements of this Standard, it would not require entities to perform calculations of the most relevant measurement basis annually. The Board's view is that an entity would have had a clear objective of how it will use its assets and made certain calculations in setting its tariffs and understanding the basis of its cost structure, in order to reach the conclusion that its objective is to use its assets to generate positive cash inflows that are expected to be significantly higher than the depreciated replacement cost.

Accounting Standards Board

Comparison with the International Public Sector Accounting Standard on *Impairment of Cash-Generating Assets* (January 2008)

The Standard of GRAP on *Impairment of Cash-generating Assets* is drawn primarily from the International Public Sector Accounting Standard on *Impairment of Cash-generating assets* (IPSAS 26). The main differences between this Standard and IPSAS 26 are as follows:

- The definitions of cash-generating assets and cash-generating unit in this Standard are different from IPSAS 26.
- This Standard of GRAP uses different terminology, in certain instances, from IPSAS 26. The most significant example is the use of the term "net assets" in this Standard. The equivalent term in IPSAS 21 is "net assets/equity".
- Cash-generating property, plant and equipment that is measured at revalued amounts, and intangible assets that are measured at revalued amounts have not been scoped out of this Standard. Additional guidance on the treatment of impairment losses for assets measured at revalued amounts, and additional disclosures relating to such assets, were also included in this Standard. Assets measured at revalued amounts are scoped out from IPSAS 26. Accordingly, guidance on the treatment of impairment losses related to such assets is also not included in IPSAS 26.
- Goodwill has been included in the scope of this Standard. IPSAS 26 excludes goodwill from its scope.
- The guidance in this Standard has been aligned with the guidance in the Standard of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21).
- The basis for classifying assets as cash-generating or non-cash-generating assets is based on the measurement basis that best reflects the objective by which the asset will be used, instead of defining what constitutes a primary objective of generating a commercial return.
- IPSAS 26 requires the disclosure of criteria developed to distinguish cash-generating assets from non-cash-generating assets.
- Transitional provisions to this Standard of GRAP are dealt with differently than in IPSAS 26.
- A flow chart is included as an appendix to assist entities in assessing whether a cash-generating asset or cash-generating unit is impaired and to determine the recoverable amount when one of the impairment indicators have been triggered.
- The appendices with illustrative examples on using present value techniques to measure value in use and illustrative guidance have been deleted in this Standard.