

# MPSAS 21 & 26: Impairment of Assets

Sarawak State Government



# Agenda



## Day 1

Introduction

Accounting Principles

First Time Adoption of  
MPSAS

Presentation of Financial  
Statements

## Day 2

Property, Plant and  
Equipment

Intangible Assets

## Day 3

Inventories

Agriculture

Investment Properties

Prepayments

Impairment of Asset

## Day 4

Financial Instrument

## Day 5

Investments

Grants, Provisions and  
Contingencies

Commitments

## Day 6

Revenue

Construction Contract

Employee Benefits

Borrowing Cost

## Day 7

Public Private Partnership

Lease Accounting

## Day 8

Policies, Estimates &  
Errors

Events After Reporting

Related Party Disclosures

General Government  
Sector

Trust Accounts and Trust  
Fund



# Components & elements of financial statements

<b>COMPONENTS</b>		<b>MPSAS</b>	
1	Statement of Financial Position	MPSAS 1	
2	Statement of Financial Performance	MPSAS 1	
3	Statement of Changes in Net Assets/Equity	MPSAS 1	
4	Cash Flow Statement	MPSAS 2	
5	Statement of Budget Performance	MPSAS 24	
6	<b>Notes to the Financial Statements</b>	<b>Various MPSAS</b>	

- Financial statement is to be prepared in accordance with the accounting principles

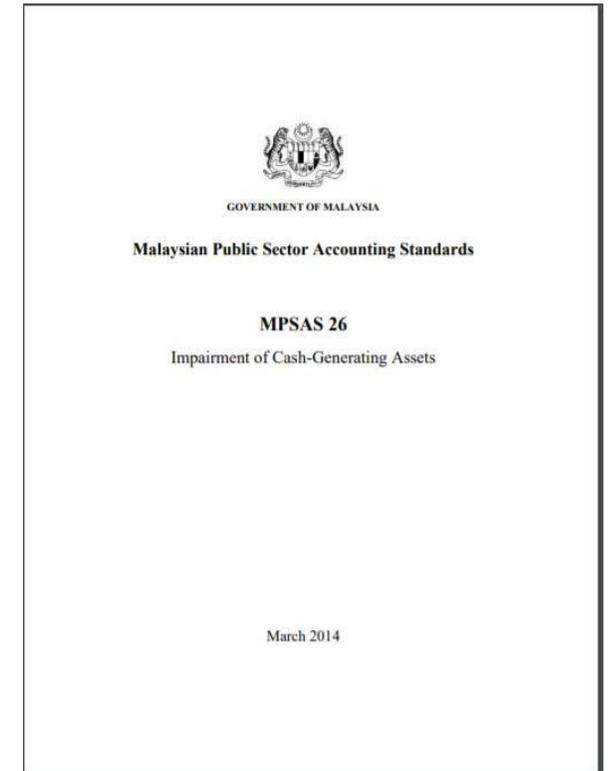
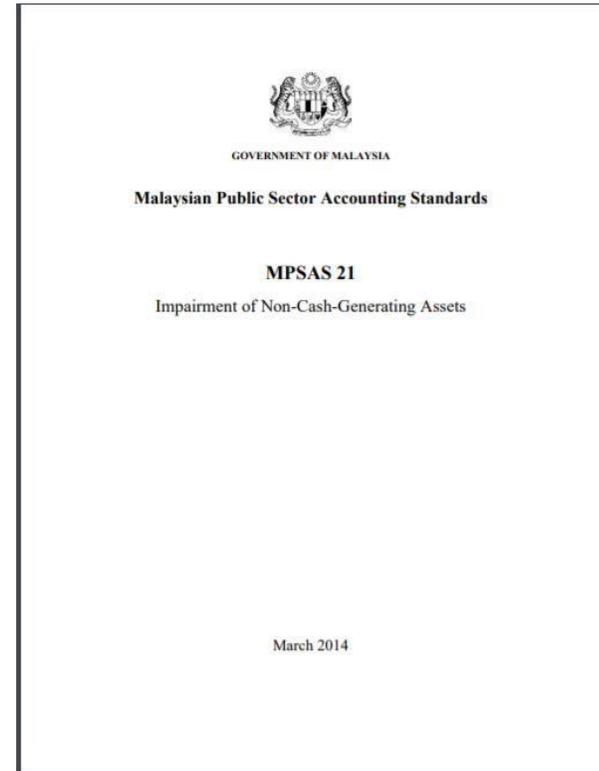


# MPSAS 21 & 26

## Impairment of Assets

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

**Effective Date: 1 January 2017**





# Cash generating assets vs non-cash generating assets

## Cash generating assets

Assets held with the primary objective of generating a commercial return. E.g.

- Private unit of the government hospitals
- Air-freight unit of a government entity doing leasing business



## Non-cash generating assets

Assets other than cash-generating assets. Eg.

- National schools
- Government hospitals
- Assets used in the Government Ministries and Departments
- Prisons



What if an asset can be used for cash and non-cash generating purpose?

Example public hospital with private ward for commercial fee paying customer



# Identifying assets that may be impaired



1. Assess at **each reporting date** whether there is any **indication** that asset may be impaired.
2. If any such indication exists, to determine the recoverable service amount / recoverable amount

$$\text{Asset recoverable service amount/ recoverable amount} < \text{Carrying Amount}$$



Irrespective of any indication of impairment, test intangible asset with an indefinite useful life or intangible asset not yet available for use for impairment annually

Any time during the reporting period, provided performed at the same time every year



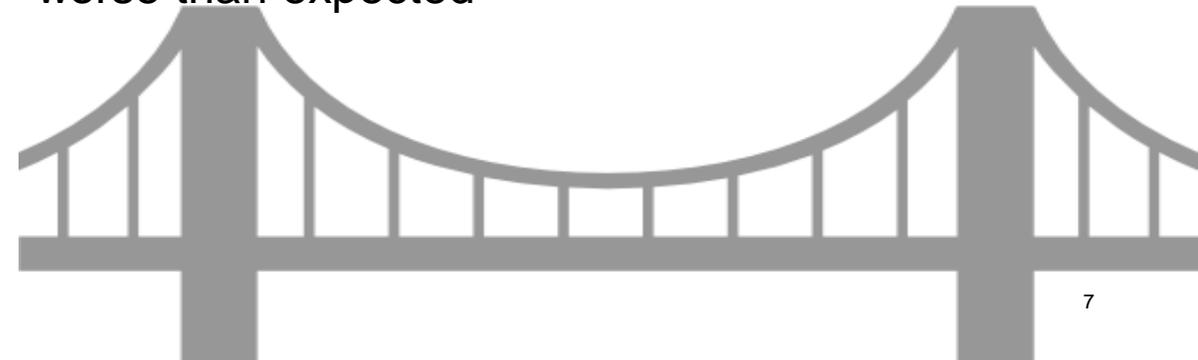
# Indicators of impairment

## External sources of information:

- Cessation, or near cessation, of the demand or need for services provided by the asset;
- Significant decline in market value
- 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 (technological, legal or government policy environment)
- Increase in market interest rates or other market rates of return on investments likely to affect the discount rate used in calculating an asset's VIU and decrease the asset's recoverable amount materially (*for MPSAS 26 only*)

## Internal sources of information:

- Evidence of physical damage of an asset
- 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 expected to be used
- A decision to halt the construction of the asset before it is complete or in a usable condition
- Evidence from internal reporting that indicates that the service performance of an asset is/will be worse than expected





# Impairment of non-cash vs cash generating assets

## Impairment of **non-cash** generating assets (MPSAS 21)

- Asset is impaired if the carrying amount is higher than the **recoverable service amount**
- Recoverable service amount is the higher of:
  - Fair value less cost to sell; and
  - Value in use
    - Present value of the asset's remaining service potential

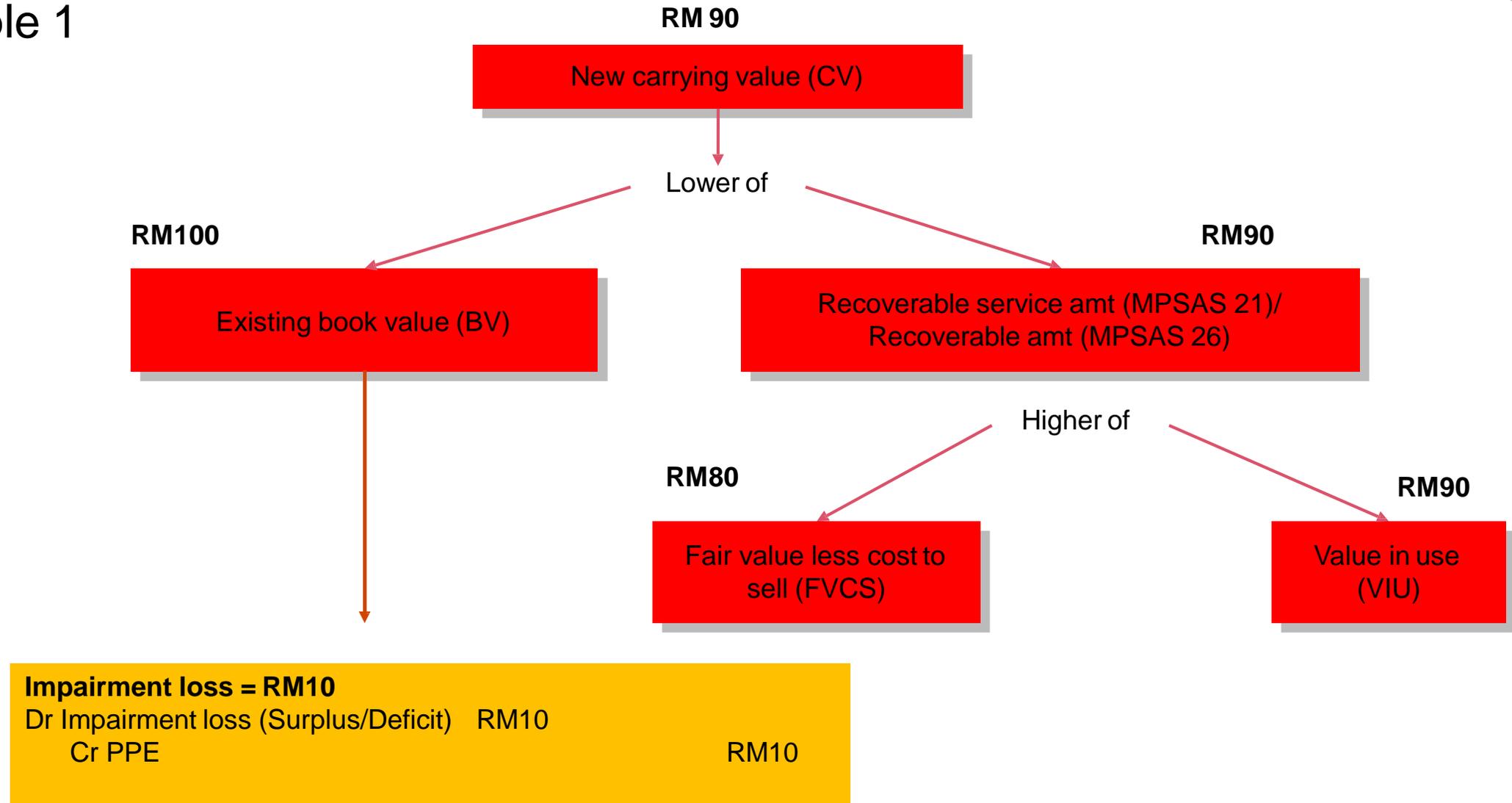
## Impairment of **cash** generating assets (MPSAS 26)

- Asset is impaired if the carrying amount is higher than the **recoverable amount**
- Recoverable amount is the higher of:
  - Fair value less cost to sell; and
  - Value in use
    - Future cash flows (including time value of money) expects to be derived from the asset



# Impairment measurement

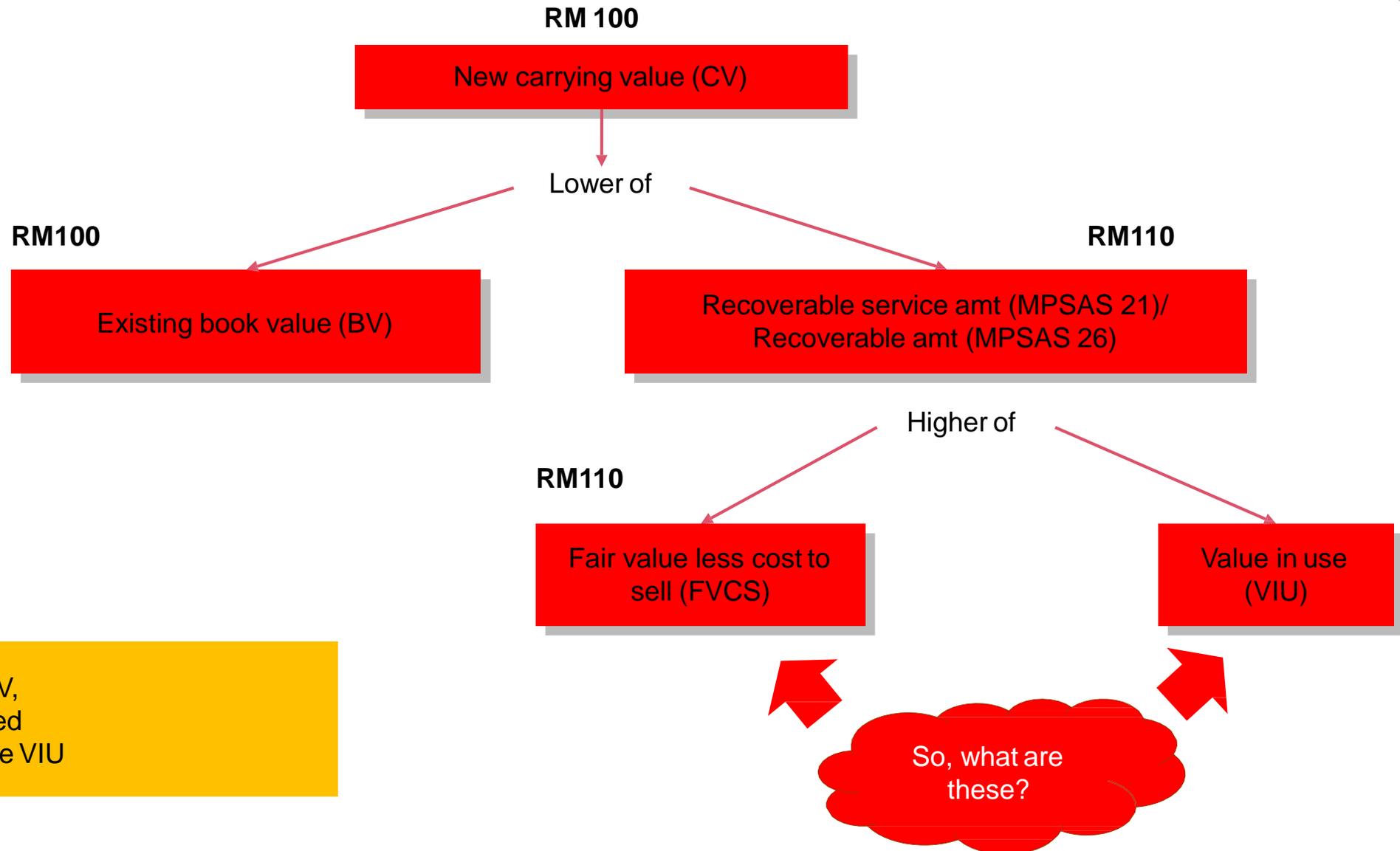
## Example 1





# Impairment measurement

## Example 2



- If FVCS > existing BV,
- Asset is not impaired
  - No need to estimate VIU



# Fair value less cost to sell (FVCS)

## Fair value

Amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

FV = RM100,000

## Cost to sell

- Deducted in determining FVCS
- Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense

Cost to sell = RM5,000

$$\text{FVCS} = \text{RM}100,000 - \text{RM}5,000 = \text{RM}95,000$$

# Concept of VIU

Watch out for these!



Year	Long term growth rates	Future cash flows (RM'000)	Present value factor at 15% discount rate	Discounted future cash flows (RM'000)
1		230	0.8696	200
2		253	0.7561	191
3		273	0.6575	180
4		290	0.5718	166
5		304	0.4972	151
6	3%	313	0.4323	135
7	-2%	307	0.3759	115
8	-6%	289	0.3269	94
<b>Value in Use</b>				<b>1,232</b>

MPSAS 26 Appendix A (integral part of standard) provides guidance on present value techniques to measure VIU.



# Cash flow projections – Key assumptions

For cash flow projections, key assumptions shall be based on:

- a) Reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions
- b) Most approved recent financial budgets/forecasts. Exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance
- c) Cover a maximum period of five years, unless a longer period can be justified; and
- d) For beyond the period projections, to extrapolate based on a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.



# Estimates of future cash flows

## What's **in**cluded?

- Projections of cash inflows from the continuing use of the asset;
- Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.



# Estimates of future cash flows

## What's **ex**cluded?

- Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:
  - A future restructuring to which an entity is not yet committed; or
  - Improving or enhancing the asset's performance.
- Estimates of future cash flows shall not include:
  - Cash inflows or outflows from financing activities; or
  - Income tax receipts or payments.

# Discount Rate



- The discount rate shall be a pre-tax rate that reflects current market assessments of:
  - The time value of money, represented by the current risk-free rate of interest; and
  - The risks specific to the asset for which the future cash flow estimates have not been adjusted.
- Where asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate.



# Value in use (VIU)

## How to determine?

### Impairment of **non-cash** generating assets (MPSAS 21)

- Present value of the asset's remaining service potential
  - Depreciated replacement cost approach
  - Restoration cost approach
  - Service units approach
- Choice depends on data availability and nature of impairment

### Impairment of **cash** generating assets (MPSAS 26)

- (a) An estimate of the future cash flows the entity expects to derive from the asset;
- (b) Expectations about possible variations in the amount or timing of those future cash flows;
- (c) The time value of money, using current market risk-free rate of interest;
- (d) The price for bearing the uncertainty inherent in the asset; and
- (e) Other factors, such as illiquidity



# Value in use (VIU)

How to determine?

<b>Approaches</b>	<b>Determining the VIU (present value)</b>
Depreciated replacement cost	Cost of to replace asset's gross service potential after deducting accumulated depreciation
Restoration cost	<ul style="list-style-type: none"><li>• Cost of restoring the asset before impairment</li><li>• Estimated restoration cost is subtracted from asset's current replacement cost before impairment</li></ul>
Service unit	Reduce current cost of asset at pre-impaired level to conform to reduced number of service units expected at impaired level



# Value in use (VIU)

How to determine?

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Service unit	Reduce current cost of asset at pre-impaired level to conform to reduced number of service units expected at impaired level



# VIU – Depreciated replacement cost approach

## Illustrative Example (Scenario 1 (a))

- An entity acquired computer software license for RM350,000 in 1999
- Useful life – 7 years
- Usage of application declined to 15% of original expected capacity by 2002
- Replacement cost to replace the software – RM70,000

Is there any indication of impairment?

Yes. Technological  
change & loss of  
usage capacity



# VIU – Depreciated replacement cost approach

## Illustrative Example (Scenario 1 (a))

How much is the impairment loss?

<b>Impairment testing</b>	
Purchase cost	RM350,000
Accumulated depreciation (RM350k / 7 years) x 4 years)	RM200,000
Carrying value (CV)	RM150,000
Replacement cost	RM70,000
Accumulated depreciation (RM70k / 7 years) x 4 years)	RM40,000
Depreciated replacement cost ⑦ VIU / RSA	RM30,000
Impair loss (CV – RSA)	RM120,000

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Impairment loss expense	120,000
CR	Accumulated impairment loss	120,000





# Value in use (VIU)

## How to determine VIU?

<b>Approaches</b>	<b>Determining the VIU (present value)</b>
Depreciated replacement cost	Cost of to replace asset's gross service potential after deducting accumulated depreciation
<b>Restoration cost</b>	<ul style="list-style-type: none"><li>• <b>Cost of restoring the asset before impairment</b></li><li>• <b>Estimated restoration cost is subtracted from asset's current replacement cost before impairment</b></li></ul>
Service unit	Reduce current cost of asset at pre-impaired level to conform to reduced number of service units expected at impaired level



# VIU – Restoration cost approach

## Illustrative Example (Scenario 1 (b))

- In 1998, an entity acquired a bus at the cost of RM200,000 to help students from a nearby village to commute free of charge.
- Estimated a useful life of the bus is 10 years
- In 20X2, the bus sustained damage in a road accident requiring RM40,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is RM250,000 in 20X2.

Is there any indication of impairment?

Yes. Damage to the bus from a road accident



# VIU – Restoration cost approach

## Illustrative Example (Scenario 1 (b))

How much is the impairment loss?

<b>Impairment testing</b>	
Purchase cost	RM200,000
Accumulated depreciation (RM200,000 /10 years) x 5 years	RM100,000
Carrying value (CV)	RM100,000
Replacement cost	RM250,000
Accumulated depreciation (RM250,000 /10 years) x 5 years	RM125,000
Depreciated replacement cost (if undamaged)	RM125,000
Less: Restoration cost	RM40,000
VIU/RSA	RM85,000
Impair loss (CV – RSA)	RM15,000

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Impairment loss expense	15,000
CR	Accumulated impairment loss	15,000





# Value in use (VIU)

## How to determine VIU?

<b>Approaches</b>	<b>Determining the VIU (present value)</b>
Depreciated replacement cost	Cost of to replace asset's gross service potential after deducting accumulated depreciation
Restoration cost	<ul style="list-style-type: none"><li>• Cost of restoring the asset before impairment</li><li>• Estimated restoration cost is subtracted from asset's current replacement cost before impairment</li></ul>
<b>Service unit</b>	<b>Reduce current cost of asset at pre-impaired level to conform to reduced number of service units expected at impaired level</b>



# VIU – Service unit approach

## Illustrative Example (Scenario 1(c))

- An entity acquired printing machines for RM40 million in 1998
- Useful life – 10 years for printing 40mil copies of school text books
- In 2002, some parts of the machine malfunctioned resulting in 25% drop in machine's annual output. Remaining useful life of the machine is 5 years
- Replacement cost of a new printing machine – RM45 million

Is there any indication of impairment?

Yes. Significant drop  
in service potential of  
the machine



# VIU – Service unit approach

## Illustrative Example (Scenario 1(c))

How much is the impairment loss?

<b>Impairment testing</b>	
Purchase cost	RM40,000,000
Accumulated depreciation (RM40,000,000 /10 years) x 5 years	RM20,000,000
Carrying value (CV)	RM20,000,000
<hr/>	
Replacement cost	RM45,000,000
Accumulated depreciation (RM45,000,000 /10 years) x 5 years	RM22,500,000
Depreciated replacement cost (before adjustment) – VIU/RSA	RM22,500,000
VIU/RSA (for 75% remaining service potential)	RM16,875,000
<hr/>	
Impair loss (CV – RSA)	RM3,125,000

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Impairment loss expense	3,125,000
CR	Accumulated impairment loss	3,125,000



# Impairment of an abandoned non-cash generating asset AUC

## Illustrative Example (Scenario 1 (d))



- In January 20X8, the State granted to Contractor A contract to construct a hospital at an overall agreed cost of work amounting to RM200 million.
- Work commenced in March 20X8. The duration of construction was expected to be 2 years.
- Up until January 20X0, a total of RM180 million was paid out to Contractor A based on periodic progress billing and certificate of progress completion.
- The building was 90% completed.
- By this time, major disputes arose between the State and Contractor A and as the disputes were unresolved, the Contractor activated the break clause and terminated the contract with the State.
- The project was abandoned for approximately 2 years before a new Contractor B was assigned to complete the construction of the hospital.
- Contractor B estimates a further RM50 million to complete the construction.
- The estimated RM50 million includes RM20 million for restoration work and RM30 million to complete construction. Replacement cost of the building was estimated at RM210 million.

# Impairment of an abandoned non-cash generating asset AUC

## Illustrative Example (Scenario 1 (d))



1) To record the construction cost incurred until January 20X0

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Asset under construction	180,000,000
CR	Cash	180,000,000

# Impairment of an abandoned non-cash generating asset AUC

## Illustrative Example (Scenario 1 (d))



### **2) To record the impairment on asset under construction**

Assessment was made on asset under construction to check for impairment indicators and consequently assess the recoverable service amount.

Impairment indicators assessed are:

- A decision to halt completion or in a usable condition; no impairment as there was intention to complete construction.
- Evidence available on physical damage; there was evidence of damage hence restoration was subsequently pursued.

# Impairment of an abandoned non-cash generating asset AUC

## Illustrative Example (Scenario 1 (d))



### 2) To record the impairment on asset under construction

<b>Evaluation of impairment</b>	<b>Ref</b>	<b>RM</b>
Acquisition cost in 20X0 (at 90% or current value)	[a]	180,000,000
Replacement cost (fair value at 90% of RM210 million)*	[b]	189,000,000
Less: Restoration cost		(20,000,000)
Recoverable service amount	[c]	169,000,000
Impairment loss ([a] – [c])		11,000,000

\* The replacement cost of a 90% completed building approximates to RM189 million.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Impairment loss expense	11,000,000
CR	Accumulated impairment loss	11,000,000

# Impairment of an abandoned non-cash generating asset AUC

## Illustrative Example (Scenario 1 (d))



### 3) To record the restoration expense incurred in 20X2

During 20X2, Contractor B restored building to its original state and completed construction on the remaining building structure.

a) The RM20 million is added to asset under construction in year 20X2

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Asset under construction	20,000,000
CR	Cash (Contractor B)	20,000,000

a) To record the remaining RM30 million incurred to bring asset to its current service potential

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Asset under construction	30,000,000
CR	Cash (Contractor B)	30,000,000

# Impairment of an abandoned non-cash generating asset AUC

## Illustrative Example (Scenario 1 (d))



### **3) To record the restoration expense incurred in 20X2**

Upon full completion and certificate of completion obtained, the asset can be transferred from asset under construction to property plant and equipment (building).

Subsequently, the asset was revalued at a higher replacement cost of RM240 million. The asset's current recoverable amount at present is RM219 million (RM180 million + RM50 million – impairment of RM11 million).

The asset can now be increased to its recoverable service amount.

The entire impairment loss provided for under journal entry 2 is now reversed.

# Impairment of an abandoned non-cash generating asset AUC

## Illustrative Example (Scenario 1 (d))



### 3) To record the restoration expense incurred in 20X2

The increased carrying amount of the asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior period.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Accumulated impairment loss	11,000,000
CR	Impairment loss expense	11,000,000



# Value in use (VIU)

## How to determine?

### Impairment of **non-cash** generating assets (MPSAS 21)

- Present value of the asset's remaining service potential
  - Depreciated replacement cost approach
  - Restoration cost approach
  - Service units approach
- Choice depends on data availability and nature of impairment

### Impairment of **cash** generating assets (MPSAS 26)

- (a) An estimate of the future cash flows the entity expects to derive from the asset;
- (b) Expectations about possible variations in the amount or timing of those future cash flows;
- (c) The time value of money, using current market risk-free rate of interest;
- (d) The price for bearing the uncertainty inherent in the asset; and
- (e) Other factors, such as illiquidity



# Measuring impairment for cash-generating units

- If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the asset's cash-generating unit.
- An asset's cash-generating unit ("CGU") is the smallest group of assets that:
  - Includes the asset, and
  - Generates cash inflows that are largely independent of the cash inflows from other assets
- If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a CGU, even if some or all of the output is used internally.
- If the cash inflows generated by any asset or CGU are affected by internal transfer pricing, an entity shall use management's best estimate of future prices that could be achieved in arm's length transactions in estimating:
  - The future cash inflows used to determine the asset's or CGU's value in use; and
  - The future cash outflows used to determine the value in use of any other assets or CGU that are affected by the internal transfer pricing.

# Measuring impairment for cash-generating units (cont'd)



- Examples of CGU:
  - A government has an electricity-generating utility. The utility has two (2) turbine generators in a single electric plant.
  - A major manufacturing plant in the area closed and demand for power was significantly reduced. In response, the government shut down one of the generators.
  - As the individual turbine generators do not generate cash flows independently, the CGU to be used in determining an impairment is the electric plant as a whole.
- The carrying amount of a CGU shall be determined on a basis consistent with the way the recoverable amount of the CGU is determined.



# Impairment of a cash generating asset

## Illustrative Example (Scenario 2)

- At the beginning of 20X0, an entity puts into service a power plant that it constructed at the cost of RM250 million.
- At the beginning of 20X3, power plants constructed by competitors are put into service, resulting in a reduction in the revenue produced by the entity.
- Reduction in revenue was due to lower than expected volume of electricity generated and lower than expected electricity price and stand-by capacities.
- The reduction in revenue is evidence that the economic performance of the asset is worse than expected.



# Impairment of a cash generating asset

## Illustrative Example (Scenario 2)

- The following are the details of the power plant:

<b>Cost</b>	RM250,000,000
<b>Useful life</b>	20 years
<b>Residual value</b>	Zero
<b>Depreciation method</b>	Straight line

Is there any indication of impairment?

Yes. Reduction in revenue is a sign of a drop in asset's economic performance



# Impairment of a cash generating asset

## Illustrative Example (Scenario 2)

- Consequently, the entity is required to determine the asset's recoverable amount.
- Since it is not possible to determine the fair value less costs to sell of the power plant, recoverability can only be determined through the calculation of value in use.
- In order to determine the value in use of the power plant, the entity is required to:
  - Prepares pre-tax cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (year 20X4 – 20X8) approved by management;
  - Estimates subsequent pre-tax cash flows (years 20Y0 – 20Y9) based on declining growth rates ranging from - 6 per cent per annum to - 3 per cent per annum; and
  - Select a 6 per cent discount rate, which represents a rate that reflects current market assessments of the time value of money and the risks specific to the entity's power plant.



# Impairment of a cash generating asset

## Illustrative Example (Scenario 2)

Table A.1 – Calculation of The Value in Use of The Entity's Power Plant (RM'million)

Year	Long-term growth rates	Future (pre-tax) cash flows (RM'million)	Present value factor at 6% discount rate <sup>β</sup>	Discounted future (pre-tax) cash flow (RM'million)
20X4		16.8*	0.94340	15.8
20X5		14.4*	0.89000	12.8
20X6		14.2*	0.83962	11.9
20X7		14.1*	0.79209	11.2
20X8		13.9*	0.74726	10.4
20Y0	(6%)	13.1 <sup>±</sup>	0.70496	9.2
20Y1	(6%)	12.3 <sup>±</sup>	0.66506	8.2
20Y2	(6%)	11.6 <sup>±</sup>	0.62741	7.3
20Y3	(5%)	11.0 <sup>±</sup>	0.59190	6.5
20Y4	(5%)	10.5 <sup>±</sup>	0.55839	5.9
20Y5	(5%)	10.0 <sup>±</sup>	0.52679	5.3
20Y6	(4%)	9.6 <sup>±</sup>	0.49697	4.8
20Y7	(4%)	9.2 <sup>±</sup>	0.46884	4.3
20Y8	(3%)	8.9 <sup>±</sup>	0.44230	3.9
20Y9	(3%)	8.6 <sup>±</sup>	0.41727	3.6
				121.1

### Value in use

\* Based on management's best estimate of net pre-tax cash flow projections.

± Based on an extrapolation from preceding year cash flow using declining growth rates.

β The present value factor is calculated as  $k = 1/(1+a)^n$ , where  $a$  = discount rate and  $n$  = period discount.

As stated in MPSAS 26 Impairment of Cash Generating Assets, discount rate is a pre-tax rate that reflects current market assessment of:

- The time value of money represented by the current risk free rate of interests; and
- The risks specific to the asset for which the future pre-tax cash flow estimates have not been adjusted.



# VIU – Service unit approach

## Illustrative Example (Scenario 5)

How much is the impairment loss?

<b>Impairment testing</b>	
Purchase cost	RM250,000,000
Accumulated depreciation (RM250,000,000 /20 years) x 4 years	RM50,000,000
Carrying value (CV)	RM200,000,000
VIU/Recoverable amount (RA)	RM121,100,000
Impairment loss (CV – RA)	RM78,900,000

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Impairment loss expense	78,900,000
CR	Accumulated impairment loss	78,900,000





# Impairment of a cash generating asset

## Illustrative Example (Scenario 2)

### 1) To record the impairment loss in year ended 20X3 of RM78.9 million

	Ref	RM
Acquisition cost	[a]	250,000,000
Accumulated depreciation in 20X3 ([a]/ 20 years x 4 years)		(50,000,000)
Carrying amount in 20X3	[b]	200,000,000
Recoverable amount (value in use)	[c]	121,100,000
Impairment loss ([b] – [c])		78,900,000

As illustrated above, the carrying amount of RM200 million exceeds the recoverable amount of RM121.1 million (value in use) by RM78.9 million (RM200 million – RM121.1 million).



# Reversal of impairment loss

- Entity is required to assess indicators of reversal
- Reverse only where estimates used to determine recoverable amount for last impairment testing have changed
- Asset cannot be recorded above
  - recoverable amount; or
  - carrying amount, had no impairment been charged
- After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall 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.

	20X1	20X2
Carrying value	RM60	RM40
Recoverable amount	RM40	RM70
Impairment loss (to surplus/deficit)	RM20	-
Impairment reversal?		RM20



# Impairment of a non-cash generating asset

## Illustrative Example (Scenario 2)

### 1) To record the impairment loss in year ended 20X3 of RM78.9 million

The determination of the value in use of the power plant at the end of the 20X3 is as illustrated in Table A.1 –

Calculation of The Value in Use of The Entity's Power Plant.

Hence, the impairment loss of RM78.9 million is recognised as expense and the corresponding entry is recognised as accumulated impairment loss.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Impairment loss expense	78,900,000
CR	Accumulated impairment loss	78,900,000



# Reversal of impairment loss

## Illustrative Example (Scenario 3)

- Following on from Scenario 1(a) where an impairment loss of RM120,000 was recognised due to usage of a software application decreased to below its originally anticipated demand.
- This impairment loss was subsequently reversed as usage of the software application rebounded, where the value in value/recoverable service amount is now greater than the carrying amount.



# Reversal of impairment loss

## Illustrative Example (Scenario 3)

### 1) To record the reversal of impairment loss

When there are signs of reversal of impairment loss, the accumulated impairment loss account is debited and the impairment loss account is credited.

The same journal entry applies when recognition and reversal of write down straddles over two (2) financial years.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Accumulated impairment loss	120,000
CR	Impairment loss expense	120,000

*Note: The same journal entry is applicable for similar reversal of impairment loss scenarios for both cash generating and non-cash generating assets regardless whether the depreciated replacement cost approach, restoration cost approach, service units approach, CGU approach or the value in use approach are adopted.*

# Disclosures



For each class of assets:

- a. The amount of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.
- a. The amount of reversals of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.

## Note 11: Property, plant and equipment

20X2	Freehold land (RM'000)	Leasehold land (RM'000)	Buildings (RM'000)	Office equipment, furniture and fittings (RM'000)	[Specify] (RM'000)	Total (RM'000)
<b>Accumulated impairment losses</b>						
As at 1 January	xx	xx	xx	xx	xx	xx
Impairment charge for the year	xx	xx	xx	xx	xx	xx
Reversal	(xx)	(xx)	(xx)	(xx)	(xx)	(xx)
As at 31 December	xx	xx	xx	xx	xx	xx

# Disclosures (cont'd)



## Notes to the Financial Statements As at 31 December 20X2

### Note 5: Receivables (continued)

#### (a) Trade receivables (continued)

Trade receivables that are impaired at the end of the financial year and the movement of the allowance accounts used to record the impairment are as follows:

	20X2 RM'000	20X1 RM'000
<b>Collectively impaired</b>		
Trade receivable, gross	xx	xx
Less: Allowance for impairment	xx	xx
	<b>xx</b>	<b>xx</b>
<b>Individually impaired</b>		
Trade receivable, gross	xx	xx
Less: Allowance for impairment	xx	xx
	<b>xx</b>	<b>xx</b>
<b>Total impaired</b>		
Trade receivable, gross	xx	xx
Less: Allowance for impairment	xx	xx
	<b>xx</b>	<b>xx</b>
<b>Movement in allowance account</b>		
As at 1 January	xx	xx
Charge for the financial year	xx	xx
Reversal of impairment losses	xx	xx
Write off	xx	xx
As at 31 December	<b>xx</b>	<b>xx</b>

For each class of assets:

- a. The amount of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.
- a. The amount of reversals of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.

# Disclosures (cont'd)



## Note 23: Expenses

### (c) Impairment of assets

	20X2 RM'000	20X1 RM'000
Impairment of financial assets		
• Loans and receivables	XX	XX
• Available-for-sale financial assets	XX	XX
	XX	XX
Impairment of property, plant and equipment	XX	XX
Impairment of intangible assets	XX	XX
	<b>XX</b>	<b>XX</b>

# Disclosures (cont'd)



## Note 2: Accounting Policies (continued)

### (c) Summary of significant accounting policies (continued)

#### 17. Impairment of non-financial assets

Intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to surplus or deficit. Any subsequent increase in recoverable amount is recognised in surplus or deficit.

- The description of the CGU, amount of the impairment loss recognised or reversed by class of assets and description of the current and former way of aggregating assets and the reasons for changing the way the CGU is identified.
- Whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use.
- If the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).
- If the recoverable service amount is value in use, the approach used to determine value in use.