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| Treasurer's Instruction No | 305 |
| Title | Impairment of Non-current Assets |
| Effective date | 1 July 2005 |
| Objective and Background | Provides instruction and guidance in respect of the impairment of Non-current assets |
| Last Reviewed Date | 30 April 2005 |

This Instruction was previously known as Treasurer's Instruction No 913 – Impairment of Non-current Assets.

Black letter (or bold) items within these Instructions are mandatory and other plain font items are instructional or for the purpose of providing guidance only.

This Treasurer's instruction is to be read in conjunction with AASB 116 *Property, Plant and Equipment* and AASB 136 *Impairment of Assets*.

AASB 136 is intended to ensure that assets are carried at amounts that are not in excess of their recoverable amount. Impairment is most likely to occur in assets measured at historic cost. If assets measured at fair value have been subject to frequent revaluations, there will be a reduced likelihood of material impairment occurring.

Impairment loss is defined in AASB 136 as the amount by which the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of fair value and value in use.

(1) As a general principle, depreciated replacement cost will be used by an Agency as the basis of determining value in use.

The concept of "value in use" is difficult to apply to agencies, as cash flows are not generally earned from the use of assets. In these circumstances, the future economic benefits of an Agency's assets are not primarily dependent on the asset's ability to generate net cash inflows. Therefore, depreciated replacement cost will be used as the basis for determining value in use.

Where an asset, or cash-generating unit, generates cash flows, an Agency may adopt "value in use" and utilise discounted cash flows as the basis of valuation.

(2) Agencies are to assume that the remaining economic benefits of an asset will be replaced unless the asset has been identified as surplus.

AASB 136 allows depreciated replacement cost to be used only where the remaining economic benefits of an asset will be replaced. To ensure consistency and the application of an appropriate recoverable amount test, agencies are to assume that an asset will be replaced unless the asset has been identified as surplus.