

City of Albany  
**Policy**

# Asset Impairment



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## CONTENTS

Objective.....	4
Policy Statement.....	4
Scope .....	5
Legislative and Strategic Context.....	5
Review Position and Date .....	5
Definitions .....	5

## Objective

The Accounting Standard AASB 136 – Impairment of Assets, prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through the use or sale of the asset.

## Policy Statement

1. In accordance with AASB 136 – Impairment of Assets, an annual assessment will be made at 30 June each year, as to whether there is any indication that an asset (or a class of assets) is impaired.
2. This assessment can also be informed by any indications of impairment highlighted during the process of revaluing a class of Council assets. An asset is impaired when its carrying amount exceeds its recoverable amount.
3. This assessment will be documented and recorded as part of the annual financial statements working papers, for review by the external auditor.
4. In making this assessment, City officers are required as a minimum, to consider the following indications:
  - a. External sources of information:
    - (i) During the period, an asset's market value has declined significantly more than expected as a result of the passage of time or normal use.
    - (ii) Significant changes with an adverse effect on the Council have taken place during the period, or are expected to take place in the near future, in the technological, market, economic or legal environment in which the Council operates or in the market to which an asset is dedicated;
    - (iii) Market interest rates or other market rates of return on investments have increased during the period and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
    - (iv) The carrying amount of the net assets of the Council is more than its market capitalisation;
  - b. Internal sources of information:
    - (i) Evidence is available of obsolescence or physical damage of an asset;
    - (ii) Significant changes with an adverse effect on the Council 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 rather than indefinite; and
    - (iii) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

5. Where an asset is considered likely to have been impaired, the City will estimate the recoverable amount of the asset. If the assets carrying amount exceeds the amount to be recovered through the use or sale of the asset, it will be written down and an impairment loss recorded in the Financial Accounts, unless the asset is carried at a revalued amount. Where an asset has been revalued, the impairment loss will be offset against the asset revaluation reserve to the extent available. An impairment loss can be reversed for physical non-current assets in subsequent years. w.

## Scope

6. The purpose of this Policy is to provide guidance to all City Officers involved in the assessment of whether assets have been impaired and the determination of the amount by which the impairment is to be recognised in Council's annual financial statements.
7. This policy applies to all assets as required by Accounting Standard AASB 136 – Impairment of Assets. These assets are predominantly Infrastructure Assets and Property, Plant and Equipment.

## Legislative and Strategic Context

8. Strategic context (Community Strategic Plan) and/or Federal or State legislation, directives, guidelines, Acts or Regulations that provide the broad framework within which the policy operates and/or with which it needs to comply:
  - a. AASB 116 – Property, Plant and Equipment
  - b. AASB 136 – Impairment of Assets
  - c. Local Government (Financial Management) Regulations 1996

## Review Position and Date

9. This policy and procedure is to be reviewed by the document owner every two years.

## Definitions

10. Key terms and acronyms used in the policy, and their definitions:
  - **Carrying amount:** The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
  - **Depreciation:** The systematic allocation of the depreciable amount of an asset over its useful life.
  - **Fair value:** The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where there is no market price, fair value is determined from the cost to replace the future economic benefits contained in the assets.
  - **Impairment:** The amount by which the carrying amount of an asset exceeds its recoverable amount.
  - **Recoverable amount:** The higher of its fair value less cost to sell and its value in use.
  - **Value in use:** The present value of the future cash inflows and outflows to be derived from the continuing use of the asset and from its ultimate disposal.