4.7 Impairment of Assets

Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009

10.1.2.78 The Code (following IFRS 1) requires local authorities to classify and account for impairments in their opening IFRS balance sheet (1 April 2009) in accordance with section 4.7 of the Code (see also IAS 36 and IPSAS 21 and 26). Accounting for impairment of assets following IAS 36 is a change of accounting policy that will require authorities to restate their opening balances in respect of Impairment. IAS 36 requires all impairments, including the term referred to in the SORP as 'clear consumption of economic benefits', on re-valued assets to be recognised in the Revaluation Reserve up to the amount in the Revaluation Reserve for each respective asset and thereafter recognised in Surplus or Deficit on provision of services, (previously called the Income and Expenditure Account).

At the Net Book Value level, accounting for an impairment loss under the Code involves the same accounting treatment as for a revaluation loss (although accumulated depreciation and impairments would not be written out when an asset was impaired). The SORP previously required a different treatment to be followed. This change should simplify the accounting requirements; authorities will need to ensure the change is reflected in their asset management systems. Further guidance on impairment can be found in Module 4, Section K of the Code Guidance Notes.

10.1.2.79 No adjustments are required to authorities' opening Balance Sheet in relation to impairments as the 2009 SORP required an adjustment between the Revaluation Reserve and the Capital Adjustment Account that matches the adjustment that would otherwise be required on transition to the IFRS-based Code.

An example of the transactions that occur under both the SORP (for an impairment loss arising as a result of the consumption of economic benefits) and the Code, demonstrating that no additional transactions are required to restate the 1 April 2009 Balance Sheet, is given in Example A in the spreadsheet.

Step 2 - Restate Comparative Figures for 2009/10

10.1.2.80 Although in step 1 it was not necessary to restate the opening sheet position as at 1 April 2009, it may be necessary to restate comparative figures for 2009/10 in relation to impairments classed 'consumption of economic benefit' under the SORP and any associated reversals, that were recognised in the Income and Expenditure Account on a previously revalued asset.

Impairments classed under the SORP as 'general fall in values' would have been treated as a revaluation loss, and any loss charged initially to the Revaluation Reserve. This treatment matches that required under the Code (see section 4.1 of the Code), and hence no restatement of these transactions is necessary.

Impairment due to Clear Consumption of Economic Benefit

10.1.2.81 Where an impairment loss due to the clear consumption of economic benefits on a re-valued asset has been charged to the Income and Expenditure Account in 2009/10, the charge to the service revenue account, trading account, support service or non-distributed cost shall be reduced to the

Final

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amount of the impairment loss that takes the carrying amount below historical cost[11], with the corresponding entry reducing the Revaluation Reserve.

The entries required to restate the Comprehensive Income and Expenditure Statement are as follows:

Dr Revaluation Reserve
Cr General Fund (Service Revenue Account)

With the impairment loss charged to the Income and Expenditure Account under the SORP (up to the balance on the Revaluation Reserve for the relevant asset)

10.1.2.82 Further entries will be required in the Movement in Reserves Statement to reverse the entry within General Fund/HRA that was required by statute to negate the impact on General Fund / HRA Balances and the corresponding entry in the Capital Adjustment Account, together with the reversal of the original entries associated with writing down the balance on the Revaluation Reserve to the Capital Adjustment Account with regard to the impairment based on re-valued amounts.

These transactions need to be reversed separately to ensure that the presentation of the Movement in Reserves Statement and related notes are correct. The entries required are as follows:

Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account

With the reversal of the impairment credited to the General Fund under the SORP (up to the balance on the Revaluation Reserve for the relevant asset)

Dr Capital Adjustment Account
Cr Revaluation Reserve

With the adjustment to the Revaluation Reserve made under the SORP

A worked example is shown in Example B in the spreadsheet.

Reversal of Impairment Loss due to Clear Consumption of Economic Benefit

10.1.2.83 Where a reversal of a previous impairment loss due to the clear consumption of economic benefit on a re-valued asset has been credited to the Income & Expenditure Account in 2009/10, it may be necessary to restate comparative figures for 2009/10 in relation to this reversal. This restatement will only be required when the original impairment loss was based on a previous re-valued asset and the subsequent gain is in excess of the historical cost as it would have been without the original impairment (adjusted for depreciation that would have been applied).

[11] Historical cost is referred to throughout this section and is deemed to be the carrying amount of an asset as at 1st April 2007 (i.e. b/f from 31st March 2007) or at the date of acquisition, which ever date is the later, and adjusted for subsequent depreciation or impairment (if applicable)

Local authorities implemented the SORP requirements in relation to the Revaluation Reserve on 1 April 2007. As a result, impairments before 1 April 2007 should not be reversed (see footnote 11 above).

The figures will need to be restated where the original impairment would be accounted for differently under the Code than under the SORP as in these cases the reversal of the impairment will also be treated differently under the Code than under the SORP. Where the impairment arose due to a consumption of economic benefits, the SORP required the impairment to be charged to the Income and Expenditure Account, and so any reversal will be credited in full to that account. Under the Code, the impairment would have been charged initially to the Revaluation Reserve; and only to the Comprehensive Income and Expenditure Statement where the balance on the reserve was reduced to nil. The reversal under the Code would be initially to the Comprehensive Income and Expenditure Statement, and then to the Revaluation Reserve.

Under the Code, entries to reverse the impairment (including the related depreciation adjustment) should be split into those elements that are recognised in the Service Revenue Account and those that are recognised in the Revaluation Reserve. Only an impairment that reduces the carrying amount of the asset below its depreciated historical cost will be recognised in the Service Revenue Account; it therefore follows that the amount to be recognised in the Service Revenue Account when the impairment is reversed is the loss previously recorded in the Service Revenue Account, adjusted for the depreciation that would have been charged (on a depreciated historical cost basis) if the impairment had not been recognised. The balance of the restatement (to both the impairment and the related depreciation adjustment) is recognised in the Revaluation Reserve.

As a result of the different treatment of the impairment reversal under the Code, the depreciation adjustment required under the SORP will not be required under the Code, and will need to be restated.

The calculations required can be complex, and authorities are advised to work through the circumstances for individual assets carefully.

10.1.2.84 Further entries will be required in the Movement in Reserves statement to reverse the entry within General Fund/HRA that was required by statute to negate the impact on General Fund Balances of the impairment reversal and corresponding entry in the Capital Adjustment Account, together with the original entries associated with the reinstatement of the balance on the Revaluation Reserve from the Capital Adjustment Account with regard to the impairment based on re-valued amounts.

When an impairment loss is reversed, additional adjustments are required. The adjustments required are between the General Fund and Capital Adjustment Account, to restate the statutory entry to negate the impact on the General Fund of the impairment reversal; and between the Capital Adjustment Account and the Revaluation Reserve, to reverse the adjustment made when the impairment was reversed.

The following entries are required to restate the 2009/10 comparative accounts:

Final

Dr General Fund (Service Revenue Account)
Cr Revaluation Reserve

With the difference between the impairment reversal credited to the General Fund (Service Revenue Account) under the SORP and under the Code. Note that this entry includes both the restatement of the original impairment loss and the adjustment for depreciation that would have been charged had the impairment not occurred

Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)

With the reversal of the difference between the impairment reversal credited to the General Fund (Service Revenue Account) under the SORP and under the Code

Dr Revaluation Reserve
Cr Capital Adjustment Account

With the reversal of the amount previously recognised as a reversal of the revaluation reserve adjustment under the SORP, and which is not required under the Code

Dr Capital Adjustment Account
Cr Revaluation Reserve

With the depreciation adjustment recognised under the SORP but not required by the Code

A worked example is shown in Example C in the spreadsheet.

Final