



## Asset Impairment Policy

| Policy Type:          | Policy                   |                                |                              |
|-----------------------|--------------------------|--------------------------------|------------------------------|
| <b>Approved By:</b>   | Council                  | <b>Decision No:</b>            | 2008/1377, 2011/327          |
| <b>Approval Date:</b> | <b>15 December 2008</b>  | <b>Most Recent Approval:</b>   | 27 April 2011                |
| <b>Review Date:</b>   | 27 April 2013            | <b>Internal Reference No.:</b> |                              |
| <b>Department:</b>    | Finance                  | <b>Division:</b>               | Revenue and Finance          |
| <b>Function:</b>      | 7 - Financial Management | <b>Responsible Officer:</b>    | Manager, Revenue and Finance |

### A - PREAMBLE

1. 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.

### B - SCOPE

1. This policy directs those Council officers who are charged with accounting for Council's assets and related purposes.

### C – POLICY PURPOSE/OBJECTIVES

1. This policy clarifies the procedures required when assessing whether evidence exists indicating an asset is impaired.

### D - DEFINITIONS

1. **Carrying Amount** – Is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
2. **Depreciation** – The systematic allocation of the depreciable amount of an asset over its useful life.
3. **Fair value** - The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
4. **Impairment** – The amount by which the carrying amount of an asset exceeds its recoverable amount.
5. **Recoverable Amount** – Is the higher of its fair value less costs to sell; and its value in use.
6. **Value in Use** – The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

### E - 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'. 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.
2. This assessment will be documented and recorded as part of the annual financial statements working papers, for review by the external auditor.

3. In making this assessment, Council is required as a minimum, to consider the following indications:

a) External sources of information

- During the period, an assets market value has declined significantly more than expected as a result of the passage of time or normal use.
- 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;
- 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;
- The carrying amount of the net assets of the Council is more than its market capitalisation;

b) Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset;
- 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 previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; and
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

4. Where an asset is determined to be impaired, the entity shall 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.

## F - LEGISLATION

*Local Government Act 1999*

*Local Government (Financial Management) Regulations 1999*

## G - REFERENCES

AASB 116 – Property, Plant & Equipment

AASB 136 – Impairment of Assets

## H - ASSOCIATED PROCEDURES

City of Salisbury Financial Reporting Process

Accounting Treatment of Land Under Roads

Asset Capitalisation Policy

Asset Valuation Policy

Asset Depreciation Policy

### Document Control

|                        |                         |
|------------------------|-------------------------|
| <b>Document ID</b>     | Asset Impairment Policy |
| <b>Prepared by</b>     | Matthew Coldwell        |
| <b>Release</b>         | <b>1.0</b>              |
| <b>Document Status</b> | Approved                |
| <b>Issue Date</b>      | <b>10/08/2011</b>       |