Australian Accounting Standard **AAS 10**

December 1999

Recoverable Amount of Non-Current Assets

Prepared by the
Public Sector Accounting Standards Board of the
Australian Accounting Research Foundation and by the
Australian Accounting Standards Board

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Defined words appear in *italics* the first time they appear in a section. The definitions are in Section 9. Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

The Standard is principally a reissue of the requirements concerning the recoverable amount test for non-current assets set out in Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets" as issued in June 1996. In addition, it includes new commentary clarifying that, where net cash flows are discounted to their present value when measuring the recoverable amount of non-current assets, meeting the requirement (retained from the superseded Standard) to disclose the assumptions made in respect of the assets' recoverable amount includes disclosing the discount rate used.

The Standard, which applies to non-current assets measured on the cost basis:

(a) requires the carrying amounts of non-current assets to be written down to their recoverable amount when their carrying amount is greater than their recoverable amount

(b) defines the recoverable amount of an asset as the net amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal

(c) excludes not-for-profit entities from the requirement to write down to their recoverable amount assets which are not held for the primary purpose of generating net cash inflows

(d) defines a not-for-profit entity to mean an entity whose financial objectives do not include the generation of profit

(e) requires disclosure of the carrying amounts of non-current assets written down to their recoverable amount, the amounts of recoverable amount write-downs, and accounting policies applied in respect of the method of determining recoverable amount.

Measuring non-current assets on the cost basis includes measuring non-current assets at "deemed cost". A class of non-current assets is measured at deemed cost where the entity previously revalued that class of assets and, under the transitional provisions in Australian Accounting Standard AAS 38 "Revaluation of Non-Current Assets", as issued in December 1999, elects to deem the opening (revalued) carrying amount of assets comprising the class to be the assets' cost for the purpose of reverting to the cost basis as at the date of first applying AAS 38.

Because the Standard applies to non-current assets measured on the cost basis, it requires recoverable amount write-downs to be recognised as expenses in net profit or loss/result. Background to this requirement is provided in the "Background to Revision" set out after the Accounting Standard.

The Australian Accounting Standards Board and the Public Sector Accounting Standards Board have developed Exposure Draft ED 99 "Impairment of Assets", which was issued for comment in December 1999. A Standard developed from ED 99 would replace the Standard. ED 99 itemises a range of proposed scope exclusions. Similar scope exclusions are not itemised in the Standard, which retains the style of drafting from the superseded Standard. However, as no substantive changes have been made to the requirements of the Standard, the scope of the Standard is essentially unchanged from the superseded Standard.

The Standard has been reissued at this time solely to facilitate the separate issue of Australian Accounting Standard AAS 38 "Revaluation of Non-Current Assets". Whilst the Standard has been reissued for this purpose, the Boards do not support the option carried forward to the Standard to use undiscounted cash flows to measure an asset's recoverable amount.

AUSTRALIAN ACCOUNTING STANDARD

AAS 10 "RECOVERABLE AMOUNT OF NON-CURRENT ASSETS"

1 Application

1.1 This Standard applies to:

(a) *general purpose financial reports* of each *reporting entity* to which Accounting Standards operative under the Corporations Law do not apply; or

(b) financial reports that are held out to be general purpose financial reports by an *entity* which is not a reporting entity, and to which Accounting Standards operative under the Corporations Law do not apply.

1.1.1 Accounting Standards operative under the Corporations Law apply to companies and to other entities required by legislation, ministerial directive or other government authority to apply such Standards. Reporting entities which are not required to apply Accounting Standards operative under the Corporations Law are required to apply this Standard.

2 Scope

Not-for-Profit Entities

2.1 This Standard does not apply to *non-current assets* of *not-for-profit entities* where the future economic benefits comprising those *assets* are not primarily dependent on the assets' ability to generate net cash inflows.

2.1.1 The requirement that the *carrying amounts* of non-current assets do not exceed their *recoverable amount* does not apply to the non-current assets of not-for-profit entities whose future economic benefits are not primarily dependent on the ability to generate net cash inflows. A diminution in the ability of the non-current assets of not-for-profit entities to generate net cash inflows does not necessarily represent a decline in their future economic benefits. The future economic benefits comprising such assets are indicated by the goods and services the assets provide.

2.1.2 The non-current assets of a government department which provides subsidised public transport are an example of non-current assets which are exempt from the requirement to apply the recoverable amount test. Although government departments providing subsidised public transport receive cash inflows from consumers, their continued operation is dependent on government subsidy and, accordingly, they generally do not have a profit objective.

2.1.3 The form of the future economic benefits comprising some non-current assets of not-for-profit entities is in the services the assets provide rather than in the generation of net cash inflows from consumers. The carrying amount of such assets in the statement of financial position should reflect their remaining future economic benefits as at the *reporting date*, measured at an amount consistent with the measurement model applied by the *entity* in respect of its non-current assets. In those circumstances where the future economic benefits comprising non-current assets of not-for-profit entities are primarily dependent on the assets' ability to generate net cash inflows, this Standard specifies that the carrying amount of such assets should not exceed their recoverable amount.

Non-Current Assets Measured at Fair Value, Net Market Value or Net Fair Value

2.2 This Standard does not apply to non-current assets measured at *fair value, net market value* or net fair value as required or permitted by another Australian Accounting Standard.

2.2.1 This Standard does not apply to non-current assets measured on the fair value basis as permitted by Australian Accounting Standard AAS 38 "Revaluation of Non-Current Assets". AAS 38 requires that where a *class of non-current assets* is measured on the fair value basis, revaluations are to be made with sufficient regularity to ensure that the carrying amounts of the assets comprising that class do not differ materially from their fair value. The carrying amounts of non-current assets measured on the fair value basis under AAS 38 cannot be overstated, and accordingly, these assets are exempted from the application of this Standard.

2.2.2 Other assets referred to in paragraph 2.2 include:

(a) financial assets of public sector borrowing/financing entities measured at net market value as at the reporting date with changes in net market value recognised as revenues or *expenses* in *net profit or loss/result* for the reporting period, as permitted by AAS 38

(b) assets measured at net market value as required by:

   (i) Australian Accounting Standard AAS 25 “Financial Reporting by Superannuation Plans”

   (ii) Australian Accounting Standard AAS 26 “Financial Reporting of General Insurance Activities”

   (iii) Australian Accounting Standard AAS 35 “Self-Generating and Regenerating Assets”.

Inventories

2.3 This Standard does not apply to *inventories*.

2.3.1 Inventories are accounted for in accordance with Australian Accounting Standard AAS 2 “Inventories”, which prohibits the carrying of inventories at amounts greater than net realisable value.

Materiality

2.3.2 The standards specified in this Standard apply to the financial report where information resulting from their application is material, in accordance with Australian Accounting Standard AAS 5 “Materiality”.

3 Operative Date

3.1 This Standard applies to reporting periods beginning on or after 1 July 2000.

3.2 This Standard may be applied to reporting periods beginning before 1 July 2000, provided that Australian Accounting Standard AAS 38 “Revaluation of Non-Current Assets”, as issued in December 1999, is also applied for the same reporting periods.

3.2.1 This revised Standard and Australian Accounting Standard AAS 38 “Revaluation of Non-Current Assets” (as issued in December 1999) together replace Australian Accounting Standard AAS 10 “Accounting for the Revaluation of Non-Current Assets”, as issued in June 1996. AAS 10, as issued in June 1996, continues to apply for reporting periods that begin before 1 July 2000. However, an *entity* can elect to apply this Standard early in accordance with paragraph 3.2. If it makes this election, the entity would not also be obliged to comply with AAS 10, as issued in June 1996, for the reporting periods to which the election applies, provided the entity also complies with Australian Accounting Standard AAS 38 “Revaluation of Non-Current Assets”. The scope of AAS 38 is limited to applying the cost basis or the fair value basis to measure the carrying amounts of non-current assets.

3.3 When operative, this Standard and Australian Accounting Standard AAS 38 “Revaluation of Non-Current Assets”, as issued in December 1999, supersede Australian Accounting Standard AAS 10 “Accounting for the Revaluation of Non-Current Assets” as issued in June 1996.

4 Purpose of Standard

4.1 The purpose of this Standard is to:

(a) require the application of the *recoverable amount* test to *non-current assets*

(b) require disclosures relating to the application of the recoverable amount test to non-current assets.

5 Recoverable Amount Test

General

5.1 Subject to paragraph 5.2, a *non-current asset* must be written down to its *recoverable amount* when its *carrying amount* is greater than its recoverable amount.

5.1.1 A recoverable amount write-down recognises that future economic benefits which had previously been assessed as being available to the *entity* no longer exist.

5.1.2 Recoverable amount write-downs are not revaluations. Accordingly, the *recognition* of a recoverable amount write-down in respect of a non-current asset does not oblige the entity to revalue the *class of non-current assets* to which that *asset* belongs.

Recoverable Amount and Groups of Assets

5.2 Where a group of assets working together supports the generation of net cash inflows relevant to the determination of recoverable amount, the net cash inflows must be estimated for the relevant group of assets and the recoverable amount test must be applied to the carrying amount of that group of assets.

5.2.1 It is not appropriate to identify the expected net cash inflows applicable to individual assets where a group of assets working together supports the generation of net cash inflows relevant to the determination of recoverable amount. In order to identify whether there has been a decline in the future economic benefits comprising those individual assets, it is necessary to estimate the net cash inflows for the relevant group of assets and compare that amount with the carrying amount of the group of assets.

Community Service Obligations

5.3 Where, pursuant to legislation, ministerial directive or other government authority, non-current assets are used to provide goods or services at no charge, or at less than full cost recovery, those assets must be included in the group of assets that is dependent on the provision of those goods or services to enable it to generate net cash inflows. The net cash inflows must be estimated for that group of assets and the recoverable amount test must be applied to the carrying amount of that group of assets.

5.3.1 Entities other than *not-for-profit entities*, for example government business entities, may, pursuant to legislation, ministerial directive or other government authority, be required to provide certain goods or services without charge or at a charge which is less than the full cost of those goods and services. As a consequence of meeting such "community service obligations", an entity may receive government support in the form of grants and capital or other contributions.

5.3.2 The carrying amounts of non-current assets deployed in community service activities are not written down solely because the amounts presently expected to be recovered directly from the goods and services produced by those activities are less than the carrying amount of those assets. In these cases, the relevant group of assets would not be restricted to those assets directly employed in satisfying the community service obligations imposed by legislation, ministerial directive or other government authority.

6 Accounting for Recoverable Amount Write-Downs

6.1 Where the *carrying amount* of a *non-current asset* or a group of non-current assets is written down to its *recoverable amount* in accordance with paragraph 5.1 or paragraph 5.2, the decrement in that carrying amount must be *recognised* as an *expense* in *net profit or loss/result* for the reporting period in which the recoverable amount write-down occurs.

6.1.1 After the expiry of the transitional provisions in Australian Accounting Standard AAS 38 "Revaluation of Non-Current Assets", this Standard will apply only to non-current assets measured on the cost basis. It is consistent with the cost basis of measurement to treat any recoverable amount write-down of a non-current asset as an expense in net profit or loss/result.

6.1.2 Upon the initial adoption of AAS 38, if an *entity* elects to revert to the cost basis to measure a previously revalued *class of non-current assets*, either of the following will occur:

(a) retrospective adjustments will be made to adjust the carrying amounts of the *assets* to the amounts at which they would have been carried under the cost basis. In this case, the balance of the asset revaluation reserve in respect of that class will be reversed in accordance with the transitional provisions in AAS 38

(b) the revalued carrying amounts of the assets within that class as at the date of first adopting that Standard will be deemed to be the cost of those assets, and the balance of the asset revaluation reserve as at that date will be unaffected by the change.

7 Disclosures

7.1 Where the *carrying amount* of a *non-current asset* or a *class of non-current assets* has been written down to its *recoverable amount* in accordance with paragraph 5.1 or paragraph 5.2, the financial report must, in respect of each such non-current asset or class of non-current assets, disclose:

(a) its carrying amount

(b) **the recoverable amount write-down *recognised* during the reporting period**

(c) **the assumptions made in respect of its recoverable amount.**

7.2 **Where some or all of the *assets* within a class of non-current assets have been written down to their recoverable amount during the reporting period or a previous reporting period, the financial report must disclose the aggregate carrying amount of each of the following:**

(a) **assets within that class of non-current assets which are carried at that recoverable amount less, where applicable, any subsequent accumulated depreciation**

(b) **any other assets within that class of non-current assets.**

7.2.1 The term "depreciation", which is often used interchangeably with the term "amortisation", includes amortisation for the purposes of this Standard. The terms have the same meaning, however, depreciation is generally used in relation to non-current assets that have physical substance while amortisation is generally used in relation to intangible non-current assets.

7.3 **The financial report must, regardless of whether non-current assets have been written down to recoverable amount during the reporting period, disclose whether, in complying with paragraphs 5.1 and 5.2, the expected net cash flows included in determining the recoverable amounts of non-current assets have been discounted to their present value.**

7.3.1 Where net cash flows are discounted to their present value when measuring the recoverable amount of non-current assets, disclosure of the assumptions made in respect of the assets' recoverable amount [to comply with paragraph 7.1(c)] includes disclosure of the discount rate used.

8 Transitional Provisions

8.1 **Where the superseded Standard did not apply to the *entity* and *accounting policies* required by this Standard are not already being applied as at the beginning of the reporting period to which this Standard is first applied, they must be applied as at**

that date. Where this gives rise to initial adjustments which would otherwise be *recognised* in *net profit or loss/result,* the net amount of those adjustments, including any adjustments to deferred income tax balances, must be adjusted against retained profits (surplus) or accumulated losses (deficiency) as at the beginning of the reporting period to which this Standard is first applied.

9 Definitions

9.1 In this Standard:

***accounting policies* means the specific accounting principles, bases or rules adopted in preparing and presenting the financial report**

***assets* means future economic benefits controlled by the *entity* as a result of past transactions or other past events**

***carrying amount* means:**

(a) in relation to an *asset,* the amount at which the asset is recorded in the accounting records as at a particular date. In application to a depreciable asset, *carrying amount* means the net amount after deducting accumulated depreciation

(b) in relation to a class of assets, the sum of the carrying amounts of the assets in that class

cash assets* means *cash on hand* and *cash-equivalent assets

***cash-equivalent assets* means highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the investor's option and are subject to an insignificant risk of changes in value**

cash on hand* means notes and coins held, and deposits held at call with a *financial institution

***class of non-current assets* means a category of *non-current assets* having a similar nature or function in the operations of the entity, which category, for the purpose of disclosure in the financial report, is shown as a single item without supplementary dissection**

current asset **means an asset that:**

(a) is expected to be realised in, or is held for sale or consumption in, the normal course of the entity's operating cycle; or

(b) is held primarily for trading purposes or for the short-term and is expected to be realised within twelve months of the reporting date; or

(c) is cash or a cash equivalent asset which is not restricted in its use beyond twelve months or the length of the operating cycle, whichever is greater

economic entity **means a group of entities comprising the** ***parent entity*** **and each of its** ***subsidiaries***

entity **means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives**

expenses **means consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in equity during the reporting period**

extraordinary items **means items of revenue and** ***expense*** **that are attributable to transactions or other events of a type that are outside the** ***ordinary activities*** **of the entity and are not of a recurring nature**

fair value **means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction**

financial asset **means any asset that is:**

(a) cash; or

(b) a contractual right to receive cash or another financial asset from another entity; or

(c) a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or

(d) an equity instrument of another entity

***financial institution* means:**

(a) an entity (including an *economic entity*) whose principal activity is to take deposits or borrow, or both take deposits and borrow, with the objective of lending or investing in *financial assets* other than equity instruments, but excluding:

(i) entities which take deposits or borrow principally from other entities in the economic entity; and

(ii) general insurers, life insurers and superannuation plans; or

(b) an entity (including an economic entity) subject to the *Banking Act 1959* or any replacement legislation

***general purpose financial report* means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs**

***inventories* means assets:**

(a) held for sale in the ordinary course of business; or

(b) in the process of production, preparation or conversion for such sale; or

(c) in the form of materials or supplies to be consumed in the production of goods or services available for sale

excluding depreciable assets, as defined in Australian Accounting Standard AAS 4 "Depreciation"

***monetary assets* means money held, and assets to be received in fixed or determinable amounts of money**

***net market value* means the amount which could be expected to be received from the disposal of an asset in an active and liquid market after deducting costs expected to be incurred in realising the proceeds of such a disposal**

***net profit or loss/result* means:**

(a) **in the case of an entity that is not an *economic entity*, profit or loss/result after income tax expense (income tax revenue) from ordinary activities and *extraordinary items***

(b) **in the case of an entity that is an economic entity, profit or loss/result after income tax expense (income tax revenue) from ordinary activities and extraordinary items, before adjustment for that portion that can be attributed to outside equity interest**

non-current assets* means all assets other than *current assets

***not-for-profit entity* means an entity whose financial objectives do not include the generation of profit**

***ordinary activities* means activities that are undertaken by an entity as part of its business or to meet its objectives and related activities in which the entity engages in furtherance of, incidental to, or arising from activities undertaken to meet its objectives**

***parent entity* means an entity which controls another entity**

***property, plant and equipment* means tangible non-current assets that:**

(a) **are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes and may include items held for maintenance or repair of such assets**

(b) **have been acquired or constructed with the intention of being used on a continuing basis**

***recognised* means reported on, or incorporated in amounts reported on, the face of the *statement of financial performance* or the statement of financial position (whether or not further disclosure of the item is made in notes)**

***recoverable amount* means, in relation to an asset, the net amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal**

reporting date **means the end of the reporting period to which the financial report relates**

reporting entity **means an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on** ***general purpose financial reports*** **for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources**

statement of financial performance **means profit and loss or other operating statement as referred to in other Australian Accounting Standards**

subsidiary **means an entity which is controlled by a parent entity.**

Class of Non-Current Assets

9.1.1 Underpinning the requirements in paragraphs 7.1 and 7.2 is the definition of *"class of non-current assets"* in paragraph 9.1. This definition, which is consistent with the view that non-current assets should be classified according to their nature or function in the operations of the entity, defines classes of non-current assets in terms of the lowest level of aggregation adopted in the financial report for disclosure of non-current assets having a similar nature or function. In the preparation of consolidated financial reports, the definition of "class of non-current assets" is applied to the economic entity as a single entity.

Not-for-Profit Entities

9.1.2 *Not-for-profit entities* include all public sector entities other than government business entities, and those private sector entities whose objectives do not include the generation of profit, including a surplus, for distribution to members.

9.1.3 Government business entities are those government entities whose objectives encompass the generation of profit from the provision of goods and services to consumers at charges equal to or greater than the full cost of those goods and services. The financial objectives of government business entities may encompass the achievement of either a nominated profit target or a nominated rate of return on assets employed.

9.1.4 Private sector not-for-profit entities are frequently characterised by the absence of defined ownership interests that can be sold, transferred and/or redeemed, and are frequently formed for social, educational, religious, health or philanthropic purposes. Private sector entities which would be classified as not-for-profit entities would include charitable organisations and those clubs and societies whose overall financial objectives do not encompass the generation of profit. Private sector not-for-profit entities do not include clubs, credit unions, co-operatives, member service organisations and other organisations which generate profit for the benefit of members. An entity which ostensibly operates on a not-for-profit basis but which is part of an economic entity whose objective is to generate profit would in substance be an entity concerned with profit seeking and, accordingly, would not meet the definition of a not-for-profit entity.

9.1.5 Not-for-profit entities may sell particular goods and services to consumers at charges greater than the full cost of those goods and services, and may fund future acquisitions of plant and equipment from surpluses generated by such sales. However, the continuing long-term operation of not-for-profit entities largely depends on grants, parliamentary appropriations, membership subscriptions and/or gifts, donations and bequests, rather than on the sale of goods and services at a profit.

CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS

Conformity with International Accounting Standards

The International Accounting Standards Committee issued International Accounting Standard IAS 36 "Impairment of Assets" (which specifies a recoverable amount test) in June 1998. It applies to a broader range of assets than non-current assets, and its requirements are considerably more detailed than those set out in this Standard.

The Australian Accounting Standards Board and the Public Sector Accounting Standards Board have developed Exposure Draft ED 99 "Impairment of Assets" (issued for comment in December 1999), taking into account the requirements of IAS 36. The Standard developed from ED 99 would replace this Standard. The Boards have proposed in ED 99 that using undiscounted cash flows to measure recoverable amount should be prohibited, consistent with IAS 36.

Conformity with New Zealand Accounting Standards

No accounting standard dealing specifically with the application of the recoverable amount test to non-current assets, or corresponding to IAS 36 "Impairment of Assets", has been issued in New Zealand.

BACKGROUND TO REVISION

This section does not form part of the Standard. It is a summary of the reasons for the current revision of the Standard.

1 The Standard includes the requirements concerning the recoverable amount test for non-current assets set out in Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets" as issued in June 1996. It coincides with, and is issued solely to facilitate the issue of, Australian Accounting Standard AAS 38 "Revaluation of Non-Current Assets" based on the proposals in Exposure Draft ED 92 "Revaluation of Non-Current Assets".

2 The Australian Accounting Standards Board and the Public Sector Accounting Standards Board have included the recoverable amount test in a separate Standard from AAS 38:

(a) because the recoverable amount test is applicable to non-current assets measured on the cost basis; and

(b) to avoid the need to reissue AAS 38 when the requirements for the recoverable amount test are amended as a result of the Boards' IASC harmonisation project on Impairment of Assets.

Principal Changes from the Previous Standard

3 The Standard uses the term "recoverable amount write-down" rather than "revaluation decrement" to describe the entry to write down a non-current asset's carrying amount to its recoverable amount, because AAS 38 defines "revaluation" as "the act of recognising a reassessment of the carrying amount of a non-current asset to its fair value as at a particular date, but excludes recoverable amount write-downs". This amended definition of "revaluation" reflects the requirement in AAS 38 that when non-current assets are revalued, they are revalued to their fair values.

4 The scope of the revised AAS 10 is restricted to non-current assets measured on the cost basis (which includes the "deemed cost" basis as described in the Main Features of the Standard). AAS 38 permits classes of non-current assets to be measured on the cost basis or the fair value basis, and non-current assets carried at fair value cannot be overstated. Because the scope of the revised AAS 10 is restricted to non-current assets measured on the cost basis, the Standard requires recoverable amount write-downs to be recognised as

expenses in net profit or loss/result. The previous Standard (which applied to non-current assets measured on the cost basis or a revaluation basis) required recoverable amount write-downs to be debited to the balance of the asset revaluation reserve in respect of the same class of non-current assets, to the extent of any existing credit balance in the reserve in respect of that class, with any remainder recognised as an expense in net profit or loss/result.

5 The Standard includes new commentary clarifying that, where net cash flows are discounted to their present value when measuring the recoverable amount of non-current assets, meeting the requirement (retained from the superseded Standard) to disclose the assumptions made in respect of the assets' recoverable amount includes disclosing the discount rate used.