



Australian Government

Australian Accounting  
Standards Board

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28 February 2007

Ms S Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York  
NEW YORK 10017  
UNITED STATES OF AMERICA

Dear Ms Fox

***Exposure Draft ED 30 Impairment of Cash-Generating Assets***

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the abovenamed Exposure Draft.

The Board generally supports the ED. The Board's main concern with the ED is that it disagrees with the omission of the guidance on corporate assets in IAS 36.

The AASB's specific comments on the questions asked in the Specific Matters for Comment are attached.

If you have queries regarding any matters in this submission, please contact Jim Paul ([jpaul@aasb.com.au](mailto:jpaul@aasb.com.au)) or myself.

Yours sincerely

A handwritten signature in cursive script that reads "David Boymal".

David Boymal  
Chairman

## ED 30 *Impairment of Cash-Generating Assets*

### Specific Comments

#### Question 1

**Do you agree that assets that are carried at revalued amounts under the revaluation model in IPSAS 17, “Property, Plant and Equipment” should be excluded from the scope of this ED (see paragraphs 2 and 10 of the ED and paragraphs BC3-4 of the Basis for Conclusions)? If you do not agree that assets carried at revalued amounts under the revaluation model in IPSAS 17 should be excluded from the scope, please give your reasons.**

Yes. The Board considers that if an asset’s fair value is determined by reference to the asset’s depreciated replacement cost, that amount, if estimated reliably, should not exceed the asset’s recoverable amount.

#### Question 2

**Do you agree that there should not be detailed requirements or guidance relating to goodwill? Goodwill is within the scope of the ED, but the ED does not include the detailed requirements and guidance contained in IAS 36. If you think that there should be detailed requirements and guidance, please give your reasons and suggest what those requirements and guidance should be.**

Yes. The Board agrees with the IPSASB’s reason for excluding the requirements in IAS 36 in relation to impairment of goodwill, as set out in paragraph BC9 of the Basis for Conclusions. However, the Board considers that it is illogical not to exclude goodwill from the scope of the proposed Standard for the same reason.

#### Question 3

**Do you agree that the definition of cash-generating assets in paragraph 14, as assets “held with the primary objective of generating a commercial return”, is appropriate? If you do not consider that the definition is appropriate, what definition do you propose?**

Yes.

#### Question 4

**Do you agree that the guidance on identifying cash-generating assets in paragraphs 16-21 is appropriate and clear? If you do not think that it is appropriate and clear, please indicate how it should be modified.**

The Board agrees with the guidance, except that the penultimate sentence of paragraph 20 focuses on the outcome of using an asset (i.e., whether the asset provides a commercial return) when determining whether the asset is a cash-generating asset, rather than on the primary objective for holding the asset (this intention might not be realised). However, the definitions in ED 30 distinguish cash-generating assets from non-cash-generating assets according to the primary objective for holding the asset.

#### **Question 5**

**Do you agree that if a non-cash-generating asset contributes to a cash-generating unit (CGU):**

- (a) It should firstly be assessed for impairment under IPSAS 21; and**
- (b) In accordance with paragraph 96, a proportion of the carrying amount of a non-cash-generating asset following the application of any impairment loss calculated under IPSAS 21 should be allocated to the carrying amount of any CGU to which it contributes?**

**If you do not think that this approach is appropriate, please indicate how non-cash-generating assets that contribute to CGUs should be treated.**

Yes.

#### **Question 6**

**Do you agree that there is no need to include a definition of, and requirements and guidance related to, “corporate assets”? IAS 36 defines “corporate assets” as assets other than goodwill that contribute to more than one CGU (see paragraph BC11 of the Basis for Conclusions). If you disagree with this approach, please give your reasons and outline what the requirements should be.**

The Board disagrees with the omission from ED 30 of the guidance on corporate assets in IAS 36. A public sector entity other than a GBE may have more than one cash-generating unit with shared “entity infrastructure” composed entirely of cash-generating assets.

The reason given in the Basis for Conclusions for omitting the guidance on corporate assets, namely, that “The primary purpose of public sector entities that are not GBEs is not the generation of commercial returns” (paragraph BC11) is tantamount to saying that public sector entities other than GBEs do not hold cash-generating assets. The logical extension of that argument is that all assets of public sector entities other than GBEs should be tested for impairment only under IPSAS 21 *Impairment of Non-Cash-Generating Assets*—but this is not what ED 30 proposes. It is illogical to include requirements for cash-generating units but not corporate assets.

The Basis for Conclusions explains the definition of *corporate assets* in IAS 36 as follows: “a corporate asset contributes only to cash-generating units and not to non-cash-generating activities” (paragraph BC11). However, it should be noted that no assets subject to IAS 36

are non-cash-generating, because, ultimately, all assets of a private sector business or GBE must contribute to net cash inflows at a commercial rate. Therefore, the objective of corporate assets in IAS 36 has nothing to do with the distinction between cash-generating assets and non-cash-generating assets.