Asset Procedure - Impairment of Assets Accounting

Section 1 - Background and Purpose

(1) This Procedure is applied in accounting for the impairment of all assets (including current assets) other than:

a. inventories;
b. assets arising from construction contracts;
c. deferred tax assets;
d. assets arising from employee benefits;
e. financial assets that are within the scope of the investment and financial assets accounting policy; and
f. non-current assets (or disposal groups) classified as held for sale.

Section 2 - Scope

(2) Refer to the Accounting (Financial) Policy.

Section 3 - Policy Statement

(3) Refer to the Accounting (Financial) Policy.

Section 4 - Procedure

Part A - Basic Principles of Impairment

(4) An asset should not be carried in the balance sheet at a value greater than its recoverable amount.

(5) All assets (other than goodwill, indefinite life intangible assets and intangible assets that are not yet ready for use) are required to be tested for impairment where there is an impairment indicator. Testing threshold, if any, is detailed in the University's procedures for each class of asset.

Part B - Measuring Recoverable Amount

(6) Recoverable amount is measured as the higher of an asset's fair value less costs to sell and its value in use.

Fair Value Less Costs To Sell

(7) The best indicator of fair value less costs to sell is the price in a binding arm's length sale agreement adjusted for the costs of disposal. If there is no binding sale agreement but the asset is traded in an active market, the current market price or the latest transaction price, less costs to sell, should be used. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount

that the University could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Value In Use

(8) Value in use shall be determined as the depreciated replacement cost of the asset.

Part C - Recognition of Impaired Loss

(9) If the recoverable amount of an asset is less than its carrying amount, the University should reduce the carrying amount to the recoverable amount. The reduction is recognised as an impairment loss.

(10) For assets carried at a depreciated historical cost basis the impairment loss is recognised in the income statement immediately.

(11) For assets that are carried at revalued amounts, an impairment loss is treated as a revaluation decrease. The loss is first set off against any revaluation surplus relating to the same class of assets in reserves and the balance of the loss is then treated as an expense in the income statement.

Part D - Reversals of Impaired Losses

(12) An assessment is required to be done at each reporting date to identify whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the University shall estimate the recoverable amount of that asset.

(13) For assets other than goodwill, the reversal of an impairment loss should be recognised if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment test was carried out. The reversal of an impairment loss recognises an increase in the estimated service potential of an asset, either from use or sale since the last impairment test. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(14) A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation reserve. However, to the extent that an impairment loss on the same class of asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

(15) Impairment losses relating to goodwill are not allowed to be reversed.

Part E - Basis of Impairment Testing – Investments and Other Financial Assets

(16) Investments in equity instruments are deemed ‘impaired’, and charged to the Income Statement, when either of the following occurs:

a. There is a significant decline (20% or more) in the fair value of the instrument as compared to its original cost; or
b. There is a prolonged decline in the fair value, i.e. for a period of more than one year, over the entire period for which the instrument has been held.

Impairment Testing by Finance

(17) The University investments are assessed every December to ensure that their book value is not more than the

recoverable amount. Finance uses various valuation techniques to assess the recoverable amounts of the assets.

(18) The decline in value of investments in equity instruments is treated as impairment loss if there is significant reduction or prolonged decline in the fair value of the investment.

(19) The impairment loss on financial assets determined out of the December assessment exercise will be recognised in the accounts and communicated to the senior management.

(20) The impairment losses are recognised in December, in accordance with the policy on 'Investments & Other Financial assets' as follows:

Category of Financial asset	Recognition of Impairment loss
Financial Assets at Fair Value through Profit or Loss	In the Income statement
Loans and Receivables	In the Income statement
Held-to-Maturity Investments	In the Income statement
Available-for-Sale Financial Assets	When an available-for-sale financial asset is impaired, the cumulative loss that has been recognised directly in equity shall be removed from equity and recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss shall be the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement. Impairment losses recognised in the income statement on equity instruments shall not be reversed through the income statement, but are recognised in equity in the available-for-sale financial assets revaluation reserve.

Part F - Basis of Impairment Testing

Property, Plant and Equipment

(21) Assets are tested for impairment to ensure that they are not carried in the balance sheet at a value more than their recoverable amount.

(22) All assets (other than goodwill, indefinite life intangible assets and intangible assets that are not yet ready for use) are tested for impairment where there is an impairment indicator, subject to testing thresholds, if any. Goodwill, indefinite life intangible assets and intangible assets that are not yet ready for use are tested for impairment annually.

(23) If the recoverable amount of an asset is determined to be lesser than its carrying amount, an impairment loss is recognised in the income statement (for assets carried on a depreciated historical cost basis) or treated as a revaluation decrease (for assets that are carried at revalued amount).

(24) For assets other than goodwill, the impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment test was carried out. A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation reserve. Impairment losses relating to goodwill are not reversed.

Intangible Assets

(25) The following classes of Intangible assets are recorded at their net book value, which is assumed to approximate their recoverable value:

a. Computer Software
b. Patents

c. Licenses

Computer Equipment, Other Plant and Equipment and Motor Vehicles

(26) Finance will review assets with a written down value (i.e. Net Book Value) equal to $10,000 or more and identify, with description of the circumstances including effective dates, assets that meet any of the following criteria as per the Policy on Impairment:

a. Have any significant adverse technological, market, legal or economic changes taken place which would materially reduce the asset's recoverable amount?
b. Is there any evidence of obsolescence or physical damage to the asset?
c. Have any significant changes occurred in the period, including the asset becoming idle, plans to discontinue or restructure the operation to which the asset belongs, which will materially reduce the useful life of the asset?

(27) An Impairment Certification Statement is signed by the Head of School/Department and returned to Finance with the list of assets identified as impaired.

Assets Arising from Capital/Construction Projects - Annual Impairment Testing by Finance

(28) Finance assesses the feasibility of completion of ongoing capital projects (i.e. capitalised as work-in-progress), in consultation with Facilities Management to identify any likely impairments due to funding constraints or other circumstances.

Assets Subject to Annual Revaluations

(29) The impairment losses indicated in the valuation reports are adjusted against the surplus revaluation reserves.

(30) Where there is insufficient balance in the revaluation reserve to cover the impairment losses of any class of PPE, the resulting loss is charged to 'Central' through the relevant impairment expense accounts.

Part G - Basis if Impairment Testing – Student Debtors

Basis of Accrual

(31) Trade Receivables are recognised initially at invoice value (fair value), and are subsequently re-measured at amortised cost using the effective interest method, less any provision for impairment.

(32) The collectability of trade receivables is reviewed on an ongoing basis. A provision for impairment of receivables is established when there is objective evidence that the University will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or other financial reorganisation and default or delinquent in making payments are considered indicators that the receivable is impaired. An indicator of possible impairment is the ageing schedule of the debtor balances.

Based on the age and category of the debtors, the University currently recognises an impairment provision, at the following rates, on the existing debtor balances:

Age group (in days):	91-180	181-270	271-365	>365
Category of debtor				
Students	10%	40%	70%	100%

Age group (in days):	91-180	181-270	271-365	>365
Sponsors (exclude internal sponsors)	10%	40%	70%	100%

(33) The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The impairment is recognised in the income statement.

(34) Debts which are known to be uncollectible are to be written off by reducing the carrying amount directly. If the University recovers amounts that have been previously written off as uncollectable, the recovered amount is recognised in the income statement.

Part H - Impairment of Receivables – Sundry Debtors

Basis of Accrual

(35) Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest methods, less any provision for impairment.

(36) The collectability of trade receivables is reviewed on an ongoing basis. A provision for impairment of receivables is established when there is objective evidence that the University will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or other financial reorganisation and default or delinquent in making payments are considered indicators that the receivable is impaired. An indicator of possible impairment is the ageing schedule of the debtor balances.

(37) For collective assessment, the University has used its experienced judgement in determining the level of provision for each of the categories based on the following key factors:

a. Credit risk characteristics for each category in relation to type of business/debt.
b. Number of days of debt outstanding
c. Historical observation of payment default for each category of assets

(38) Based on the age and category of the debtors, the University currently recognises an impairment provision, at the following rates, on the outstanding debtor balances as at the reporting date:

Age group (in days):	91-180	181-270	271-365	>365
Category of debtor				
Non- Government debtors	10%	40%	70%	100%
Government debtors	-	-	0%	0%

(39) The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The impairment is recognised in the income statement.

(40) Debts which are known to be uncollectible are to be written off by reducing the carrying amount directly. If the University recovers amounts that have been previously written off as uncollectable, the recovered amount is recognised in the income statement.

Section 5 - Definitions

(41) For the purpose of this Procedure:

a. Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.
b. Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.
c. Depreciated replacement cost is the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.
d. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
e. Recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use.
f. The University means La Trobe University.
g. Value in use is depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset’s ability to generate net cash inflows and where the University would, if deprived of the asset, replace its remaining future economic benefits.

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