

3.

ACCOUNTING

3.3 Capital Assets

3.3.7 Capital Assets Impairment

3.3.7.10 The [GASB Statement 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries](#), does not change the traditional accounting and financial reporting of capital assets taken out of service, either permanently or temporarily. It does, however, require the immediate recognition of decreases in the productive capacity of capital assets that are expected to remain in service, even if there is no change in the estimated useful life of the asset.

Indicators of Impairment

3.3.7.20 The Statement identifies five specific situations that may indicate that a capital asset may have been impaired:

1. **Evidence of physical damage** (e.g., office building damaged in a storm);
2. **Changes in legal or environmental factors** (e.g., an underground storage tank that is no longer usable due to changes in environmental standards);
3. **Technological changes or obsolescence** (e.g., medical equipment that still can be used, but for which the demand is expected to significantly decrease with the advent of more attractive treatment options);
4. **Changes in manner or duration of use** (e.g., a school building being used as a warehouse);
5. **Construction stoppage** - legal or practical reasons may cause to abandon a construction project (e.g., a road construction that threatens the habitat of endangered species).

3.3.7.30 The presence of one of these indicators does not automatically prove that the impairment has occurred. For example, the alternative use of capital asset could have the same value as its original use. The presence of an indicator, however, does put management on notice that it needs to consider the possibility that an impairment may have occurred.

The included flowchart is designed to help the governments determine if there is a need to calculate and disclose the assets impairment.

The reduced demand, of itself, does not constitute capital asset impairment. However, a reduction in demand resulting from one of the five indicators above would constitute impairment.

3.3.7.40 Only permanent impairments of capital assets should be recognized in the financial statements. If a government recognizes impairment because it cannot prove that the situation in question is only temporary, it may not recognize a subsequent recovery in value should the impairment ultimately prove to be temporary.

Calculating Capital Asset Impairment

3.3.7.50 For permanently impaired assets, the appropriate accounting and financial reporting depends on whether the asset is expected to remain in service. For capital assets expected to remain in service, the impairment loss must be recognized using one of three methods prescribed in the Statement. If the capital asset remains in service, it should be reported at the lower of its carrying value or fair value.

3.3.7.60 The methods for measuring the impairment are:

- Restoration cost approach. This method uses the cost of restoring capital asset’s service potential as a basis for calculating the relative portion of the historical cost of the asset that has been impaired.
- Service unit approach. This method compares productivity before and after an impairment to determine the relative portion of the historical cost of the capital asset that has been impaired.
- Deflated depreciated replacement cost approach. This method calculates what the depreciated cost of capital asset acquired at the same time, but for a different purpose, would have been to determine the relative portion of the historical cost of the capital asset that has been impaired.

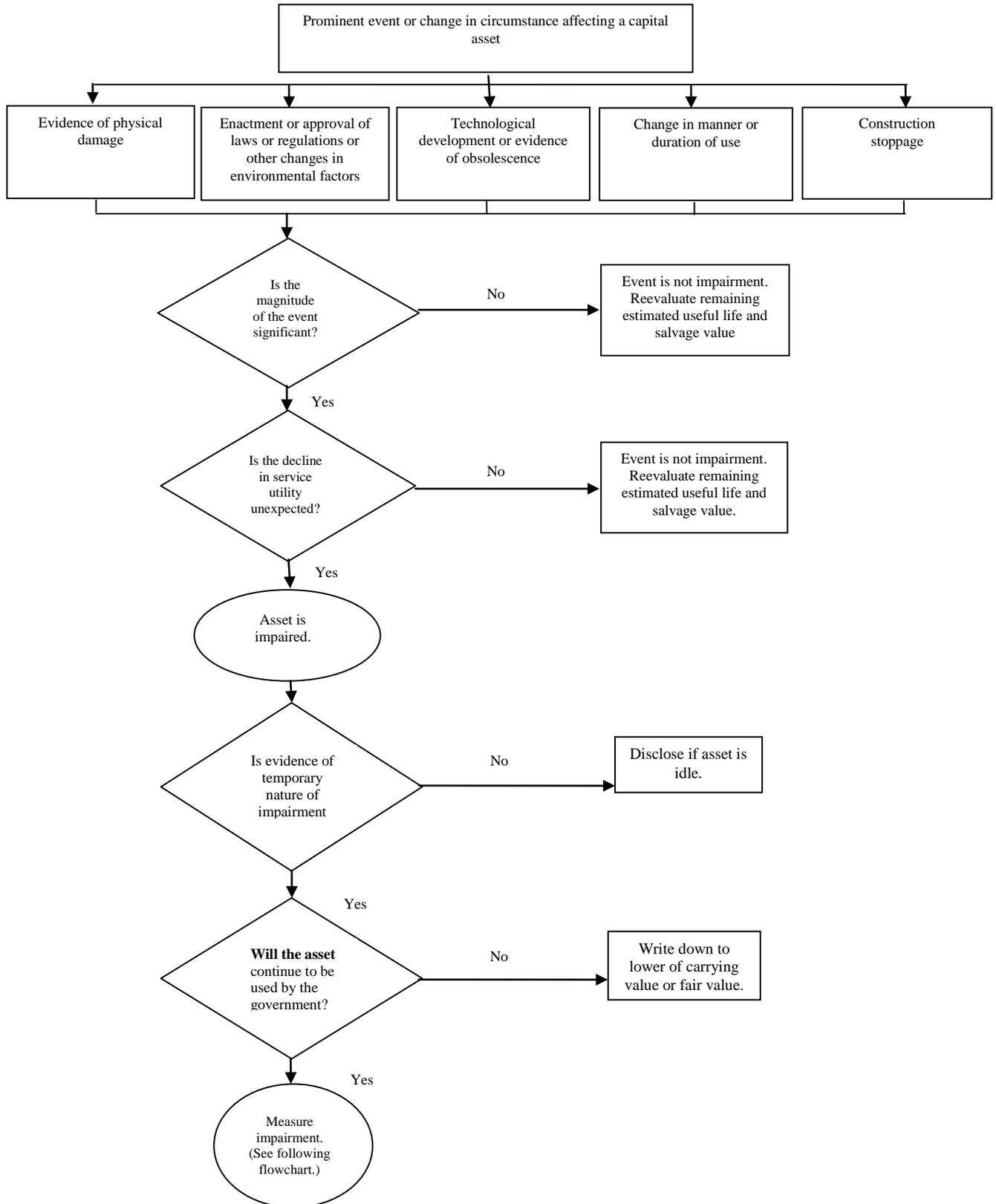
3.3.7.70 The specific method used will depend upon the indicators giving rise to the impairment.

Selection of Methods of Measuring Impairment	
Indicator of Impairment	Method Generally Used in Measuring Impairment
Evidence of physical damage	<p>If the capital asset will continue to be used by the government (or will be upon restoration of the capital asset) use the restoration cost approach.</p> <p>If the capital asset will no longer be used by the government, use lower of carrying value or fair value.</p>
Enactment or approval of laws or regulations or other changes in environmental factors.	<p>If the capital asset will continue to be used by the government, use service units approach.</p> <p>If the capital asset will no longer be used by the government, use lower of carrying value or fair value.</p>
Technological development or evidence of obsolescence	<p>If the capital asset will continue to be used by the government, use service units approach.</p> <p>If the capital asset will no longer be used by the government, use lower of carrying value or fair value.</p>
Change in manner or duration of use	<p>If the capital asset will continue to be used by the government, use deflated depreciated replacement cost or service units approach.</p> <p>If the capital asset will no longer be used by the government, use lower of carrying value or fair value.</p>
Construction stoppage	Use lower of carrying value or fair value

Reporting

- 3.3.7.80 In some cases, capital asset impairment will qualify as an extraordinary item. Capital asset impairments that are subject to management control (e.g., change in manner or duration of use) may qualify as special items. Otherwise, capital assets impairment should be treated as an element of net program cost in appropriate functional category.
- 3.3.7.90 The notes to financial statements should disclose the amount and classification of impairment losses not visible on the face of financial statements. Also, any capital assets that are idle either permanently or temporarily as a result of impairments, should be disclosed.
- 3.3.7.100 All insurance recoveries, including those not associated with the impairment of capital assets, should be reported net of the related loss as soon as the recovery is either realized or realizable. In governmental funds, recoveries should be classified as an other financing source or extraordinary item.

ASSET IMPAIRMENT DECISION PROCESS



MEASUREMENT OF ASSET IMPAIRMENT
(for assets that will continue to be used by the government)

