Some Issues of Measurement of Impairment of Non-Financial Assets in the Public Sector

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Abstract : The economic value of the asset impairment process is quite large. Impairment reflects the reduction of future economic benefits or service potentials itemized in the asset. The assets owned by public sector entities bring economic benefits or are used for delivery of the free-of-charge services. Consequently, they are classified as cash-generating and non-cash-generating assets. IPSAS 21 - Impairment of non-cash-generating assets, and IPSAS 26 - Impairment of cash-generating assets, have been designed considering this specificity. When measuring impairment of assets, it is important to select the relevant methods. For measurement of the impaired Non-Cash-Generating Assets, IPSAS 21 recommends three methods: Depreciated Replacement Cost Approach, Restoration Cost Approach, and Service Units Approach. Impairment of Value in Use of Cash-Generating Assets (according to IPSAS 26) is measured by discounted value of the money sources to be received in future. Value in use of the cash-generating asserts (as per IPSAS 26) is measured by the discounted value of the money sources to be received in the future. The article provides classification of the assets in the public sector as non-cash-generating assets and cash-generating assets and, deals also with the factors which should be considered when evaluating impairment of assets. An essence of impairment of the non-financial assets and the methods of measurement thereof evaluation are formulated according to IPSAS 21 and IPSAS 26. The main emphasis is put on different methods of measurement of the value in use of the impaired Cash-Generating Assets and Non-Cash-Generation Assets and the methods of their selection. The traditional and the expected cash flow approaches for calculation of the discounted value are reviewed. The article also discusses the issues of recognition of impairment loss and its reflection in the financial reporting. The article concludes that despite a functional purpose of the impaired asset, whichever method is used for measuring the asset, presentation of realistic information regarding the value of the assets should be ensured in the financial reporting. In the theoretical development of the issue, the methods of scientific abstraction, analysis and synthesis were used. The research was carried out with a systemic approach. The research process uses international standards of accounting, theoretical researches and publications of Georgian and foreign scientists.
Keywords : cash-generating assets, non-cash-generating assets, recoverable (usable restorative) value, value of use

Conference Title : ICMBEF 2019 : International Conference on Management, Business, Economics and Finance
Conference Location : Paris, France
Conference Dates : May 16-17, 2019