

## Transition arrangements - Impairment

### Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009

The Code (following *IFRS 1*) requires local authorities to classify and account for impairments in their opening IFRS balance sheet (1 April 2009) in accordance with section 4.7 of the Code (see also *IAS 36* and *IPSAS 21 and 26*). *IAS 36* requires all impairments, including the term referred to in the SORP as 'clear consumption of economic benefits', on re-valued assets to be recognised in the Revaluation Reserve up to the amount in the Revaluation Reserve for each respective asset and thereafter recognised in the Statement of Comprehensive Income, (previously called the Income and Expenditure Account).

No adjustments are required to authorities' opening balance sheet in relation to impairments as the 2009 SORP required an adjustment between the Revaluation Reserve and the Capital Adjustment Account that matches the adjustment that would otherwise be required on transition to the IFRS-based Code.

### Step 2 - Restate Comparative Figures for 2009/10

Although in step 1 it was not necessary to restate the opening sheet position as at 1 April 2009, it may be necessary to restate comparative figures for 2009/10 in relation to impairments classed 'consumption of economic benefit' under the SORP and any associated reversals, that were recognised in the Income and Expenditure Account on a previously re-valued asset.

#### *Impairment due to Clear Consumption of Economic Benefit*

Where an impairment loss due to the clear consumption of economic benefits on a re-valued asset has been charged to the Income & Expenditure Account in 2009/10, the charge to the service revenue account, trading account, support service or non-distributed cost shall be reduced to the amount of the impairment loss that takes the carrying amount below historical cost, with the corresponding entry reducing the Revaluation Reserve.

Further entries will be required to reverse the entry within General Fund/HRA that was required by statute to negate the impact on General Fund / HRA Balances and the corresponding entry in the Capital Adjustment Account, together with the reversal of the original entries associated with writing down the balance on the Revaluation Reserve to the Capital Adjustment Account with regard to the impairment based on re-valued amounts.

#### *Reversal of Impairment Loss due to Clear Consumption of Economic Benefit*

Where a reversal of a previous impairment loss due to the clear consumption of economic benefit on a re-valued asset has been credited to the Income & Expenditure Account in 2009/10, it may be necessary to restate comparative figures for 2009/10 in relation to this reversal. This restatement will only be required when the original impairment loss was based on a previous re-valued asset and the subsequent gain is in excess of the historical cost as it would have been without the original impairment (adjusted for depreciation that would have been applied).

Further entries will be required to reverse the entry within General Fund/HRA that was required by statute to negate the impact on General Fund Balances of the impairment reversal and corresponding entry in the Capital Adjustment Account, together with the original entries associated with the reinstatement of the balance on the Revaluation Reserve from the Capital Adjustment Account with regard to the impairment based on re-valued amounts.