

## 12. Write-down of assets to their recoverable amounts

### Introduction

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- 12.1. The FRSSE requires that fixed assets and goodwill must be carried in the balance sheet at no more than the recoverable amount. The recoverable amount of an asset is the higher of the amounts that can be obtained from selling the asset (i.e. net realisable value) or continuing to use the asset in the business (i.e. value in use). If the carrying amount (net book amount) of a fixed asset or goodwill is considered not to be recoverable in full at the balance sheet date, the carrying value of the asset must be written down to the estimated recoverable amount.
- 12.2. Charities reporting under the FRSSE when assessing whether there is any indication that an asset should be written down should refer to paragraphs 6.44 to 6.48 of the FRSSE.
- 12.3. This module must be applied by all charities using the FRSSE and applies to capitalised goodwill and all fixed assets (i.e. tangible fixed assets, intangible assets and investments) except:
- investment properties;
  - programme related or mixed motive investments which must be referred to the SORP module 'Accounting for social investments'; and
  - financial instruments (other than investments in subsidiaries, associates and joint ventures).
- 12.4. This module sets out:
- assessing if a write-down is required;
  - indications that the recoverable amount should be estimated;
  - estimating the recoverable amount;
  - accounting for write-downs and reversals; and
  - disclosures to be made in the notes to the accounts.

### Assessing if a write-down is required

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- 12.5. At each reporting date an assessment must be carried out of whether there is any indication that an asset should be written down (i.e. whether its carrying amount is more than its recoverable amount). If there is no indication that an asset should be written down, it is not necessary to estimate the recoverable amount.

## Indications that the recoverable amount should be estimated

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- 12.6. When assessing whether there is any indication that an asset should be written down, charities must refer to the FRSSE (paragraphs 6.45A to 6.45C) which lists a number of factors which might be considered. These factors include:
- a significant decline in an asset's market value;
  - significant changes in technology or markets, or in the economic or legal environment, which have an adverse effect on the charity's activities;
  - an asset becoming idle, or plans being made for its disposal earlier than expected;
  - evidence of an asset's obsolescence or physical damage; and
  - evidence of worse than expected results or cash flow from the use of an asset.
- 12.7. The demand or need for the services provided by a charity using an asset may fluctuate over time and a temporary reduction in demand is not necessarily an indication that an estimate of the recoverable amount is required. Similarly, an asset's service potential may not always be fully utilised and surplus capacity at certain periods will not always indicate that an estimate of the recoverable amount is needed. For example, it may be necessary to have the spare capacity to respond to urgent need or have the capacity to provide services at all times in the face of fluctuating need. In such circumstances, the surplus capacity is part of the required service potential of the asset and should not be taken as an indication that the asset recoverable amount should be estimated.
- 12.8. However, where demand for services significantly decreases or ceases, this would be an indication that the recoverable amounts of the assets used to provide those services must be estimated. Similarly, major social, demographic or environmental changes may have an impact on the number, nature or needs of a charity's beneficiaries and may therefore also provide an indicator of the need to estimate the recoverable amount.

## Estimating the recoverable amount

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- 12.9. When, following an assessment, there is any indication that an asset should be written down, the recoverable amount of that asset must be estimated. The recoverable amount of an asset is the higher of the amounts that can be obtained from selling the asset (i.e. net realisable value) or continuing to use the asset within the charity (value in use). However, the assets of a charity may be subject to restrictions as to their use or disposal and assets may also be held to deliver services to beneficiaries rather than to generate a cash flow.
- 12.10. A restriction may be imposed by the donor or created by the terms of an appeal used to fund the purchase of an asset. While a restriction will affect how the charity uses an asset, it is unlikely that a restriction imposed by charity law on the use of an asset would be passed on to a purchaser of that asset. Therefore, a restriction on use of an asset imposed by charity law would not normally reduce the amount obtainable on the sale of that asset.

## *Accounting and reporting by charities*

- 12.11. Occasionally, the terms of a gift will require the on-going use of a specified asset by the charity which would prevent its sale. In such instances, there may be costs involved in removing the restriction before the asset can be sold. The additional cost of removing a restriction should be reflected in the estimate of the asset's net realisable value.
- 12.12. The method used to determine the 'value in use' of an asset held by a charity will depend on whether the asset is primarily held to generate cash as a commercial return or for its service potential to the charity's beneficiaries.
- 12.13. An asset is held to generate a commercial return when it is used to generate a positive cash flow and earn a return that reflects the risks involved in holding the asset. When an asset is held to generate cash flows, its value in use will be the present value of the future cash flows expected to be derived from the asset including any cash flow resulting from its ultimate disposal.
- 12.14. The calculation of an asset's present value involves estimating the amount of the net cash flow that will be generated from the asset's use and then applying a discount rate to establish the present value of those future cash flows. Charities using the FRSSE may use the market rate for relevant UK government bonds if the anticipated cash flow has been adjusted for uncertainty as to the asset's ability to generate cash in the future.
- 12.15. However, charities often hold assets primarily to provide services to their beneficiaries rather than for generating cash flows. A charity may provide its services freely or at below commercial rates. Where an asset is primarily held for its service potential to beneficiaries, it would be inappropriate to measure value in use by reference to its cash flow. In such circumstances, it is more appropriate to regard value in use as the present value of the asset's service potential rather than the present value of its cash flow.
- 12.16. The method used to value an asset's service potential should be reliable, relevant to the asset and capable of measurement. This SORP considers that depreciated replacement cost is one method that may be used to provide a measure of an asset's service potential. The replacement cost of an asset is the most economical cost that would be incurred in replacing the asset's service potential. This cost is then depreciated to reflect the remaining economic life of the asset in its used condition.
- 12.17. Value in use measured on the basis of an asset's service potential will have particular relevance for specialist assets used by a charity. The net realisable value of a specialist asset may not reflect the cost that a charity avoids by using that asset in providing services. For example, the net realisable value of a specialist building may be less than its recent construction cost. However, provided the building continues to meet its intended service potential then its value in use would be better reflected by its replacement cost (its construction cost) rather than the amount for which it could be sold in the market.

## Accounting for write-downs and reversals

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- 12.18. If, and only if, the recoverable amount of an asset is less than its carrying amount, a charity must reduce the carrying amount of the asset to its recoverable amount. This write-down (and any reversals) to the recoverable amount must be charged (or credited) to the relevant heading(s) to which the asset's use is charged in the statement of financial activities (SoFA). However, where tangible fixed assets or investments are carried at revalued amounts, any write-down that reverse previous revaluation gains must instead be recognised within the other recognised gains and losses section of the SoFA provided that the carrying amount of the revalued asset remains greater than its depreciated historical cost.
- 12.19. If there is an indication that an asset should be written down, this may also indicate the need to review the asset's remaining useful life, the depreciation method or its residual value and to adjust these as necessary even if no loss is recognised for writing down the asset.
- 12.20. On occasions, the recoverable amount of a tangible fixed asset may subsequently increase as a result of a change in economic conditions or in the expected use of the asset. In these circumstances, the carrying amount of the asset must be written back to the lower of the recoverable amount or the amount at which the asset would have been recorded had the original write-down not been made. This reversal must be recognised under the appropriate expenditure heading(s) in the SoFA as a reduction in expenditure.
- 12.21. If the recoverable amount of an intangible asset or capitalised goodwill subsequently increases, the write-down must only be reversed if an external event caused the original write-down and subsequent external events clearly and demonstrably reverse the effects of that event in a way that was not foreseen when the original write-down was calculated.

## Disclosures to be made in the notes to the accounts

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- 12.22 This SORP requires that the amount of any write-down (and any reversals) of fixed assets or goodwill during the period must be disclosed in a note to the accounts.